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## STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

## PREBUDGET CONSULTATION AND TAX REFORM

WEDNESDAY, FEBRUARY 17, 1988

## Morning Sitting

Economic Development: For the past two years, Ontario's economy has outperformed the rest of Canada and is now heading into the third consecutive year of growth. The government of Ontario is committed to maintaining an environment in which Ontario business and industry can flourish in an increasingly competitive world. The realization of the International Trade Trade Agreement, which will boost aggregate demand and stimulate industry is crucial. The already stiff international competition requires that our industries adjust more quickly to more productive and more efficient.

If our manufacturers and commercial enterprises are to maintain our competitive edge, they must have access to efficient, well-served and well-maintained roads that will allow them to transport goods quickly and efficiently. This is becoming increasingly difficult as the cost of infrastructure continues to skyrocket and as the demand for roads grows. The opening of three competitive roads in Ontario is a major step in the experience of other provinces as the larger cities. The province is committed to making the most of the existing infrastructure and to ensuring that the supply to the province is maintained and improved.

The current implementation of the International Trade Agreement and Ontario's commitment to the new trade legislation. The province depends on the road network as one of its most important assets. The province is committed to making the most of the existing infrastructure and to ensuring that the supply to the province is maintained and improved.





STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)

Haggerty, Ray (Niagara South L)

Kozyra, Taras B. (Port Arthur L)

Mackenzie, Bob (Hamilton East NDP)

McCague, George R. (Simcoe West PC)

Morin-Strom, Karl E. (Sault Ste. Marie NDP)

Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Harris, Michael D. (Nipissing PC) for Mr. McCague

McLean, Allan K. (Simcoe East PC) for Mr. Villeneuve

Also taking part:

Polsinelli, Claudio (Yorkview L)

Clerk: Carrozza, Franco

Staff:

Anderson, Anne, Research Officer, Legislative Research Service

Witnesses:

From the Ontario Road Builders' Association:

Ryan, Arthur, Executive Director

Smallman, Lee, First Vice-President



LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday, February 17, 1988

The committee met at 10:03 a.m. in room 228.

PREBUDGET CONSULTATION AND TAX REFORM  
(continued)

Mr. Chairman: We have with us today the Ontario Road Builders' Association, Arthur Ryan, executive director, and Lee Smallman, first vice-president. We have your brief. It is exhibit number 35. Perhaps you can lead us through it and then entertain some questions.

ONTARIO ROAD BUILDERS' ASSOCIATION

Mr. Ryan: It is not a very lengthy brief, so I will probably just read through the whole thing for you and then perhaps we can answer questions at the end.

Introduction: The Ontario Road Builders' Association represents virtually all of the major firms involved in constructing and maintaining Ontario's provincial highways and municipal roads. Comprising more than 160 companies in over 50 communities across Ontario, our members represent a large, labour-intensive industry working in an area that has a substantial impact on the economic viability of the province. We welcome this opportunity to present our very serious concerns and trust our comments will be useful to the standing committee on finance and economic affairs as it reports its recommendations to the Legislature.

Economic Development: For the past two years, Ontario's economy has outperformed the rest of Canada and is now heading into its sixth consecutive year of growth. The government of Ontario is committed to maintaining an environment in which Ontario business and industry can flourish in an increasingly competitive world. The realities of the Canada-United States trade agreement, which will boost aggregate demand and stimulate industry in general, and the already stiff international competition requires that our industries adjust more quickly, be more productive and more efficient.

If our manufacturers and commercial facilities are to maintain any competitive edge, they must have access to direct, uncongested and well maintained roads--roads that will allow them to transport goods quickly and efficiently. This is becoming increasingly difficult with the adoption of just-in-time inventories throughout industry and will become even more so with the opening of three automotive plants in Ontario. Northern Ontario is already experiencing extreme difficulty as the larger mining companies, trucking from mines to smelter, attempt to utilize the just-in-time concept of inventory supply to cut storage costs and maintain profit margins.

The current implementation of the federal government's new Transport Act and Ontario's amendments to its own similar legislation will make further demands on our road network as more and more out-of-province trucking firms operate within Ontario. When one considers that presently approximately 100 million tonnes of freight are shipped across Ontario roads each year, there

are more than \$12 billion worth of goods that arrive via road annually in Metro Toronto alone and goods exported from Ontario via truck are valued at over \$36 billion per year, it is apparent that a transportation network system second to none is required to support the increased business spending and exports which are expected to play a leading role in the province's economic growth.

**Employment:** The Ontario government has identified job creation as a high economic priority. The unemployment situation across the province is better today than it has been during the past years. However, job creation for 1988 is forecast at a moderate 2.2 per cent increase and substantially less for 1989-91. Unemployment is still a most pressing problem facing the province as the number of long-term unemployed is still significantly higher than at the beginning of the decade. In northern Ontario, the situation is particularly acute. The unemployment rate in the north is still in double digits with no imminent prospect of being reduced.

Construction and maintenance of roads can increase Ontario's job creation program and reduce unemployment levels. Road building is a very labour-intensive industry. It has been stated that the job creation impact of road expenditures is second only to that of housing expenditures. In addition, there are accompanying payoffs in tax returns, indirect job creation and decreases in the cost of social safety nets. Road works have an added multiplier effect of 1.85 in triggering other job-creating investments within our economy.

**Tourism:** Tourism is an important sector of the Ontario economy accounting for 4.2 per cent of Ontario jobs. Tourism spending in the province has been estimated at \$9.3 billion for 1987. Growth of real incomes, more personal leisure time and expanding business travel is causing the tourism market to expand rapidly. Recent currency realignments will further encourage foreign visitors and also encourage more Canadians to remain in North America. A first-class, efficient road network is absolutely vital to the tourism industry. We must have a direct, uncongested road system which can accommodate the ever-increasing numbers of travellers and not subject them to stressful delays, traffic jams and poor roads.

**Safety and social services:** Aside from the compelling economic facts, there are a number of safety and social arguments which may be made for ensuring that the road system in Ontario is maintained at an optimum level. Ontario has recently introduced amendments to the Highway Traffic Act which more fully supports the National Safety Code. The National Safety Code will achieve nationwide uniformity in safety standards. It aims to clearly enhance highway safety which can best be achieved on unclogged, free-moving road networks.

Many of the day-to-day services that the people of Ontario have come to rely on are major users of the road system. Municipal transit systems, intercity bus services, school buses, police, fire protection, ambulances, hospital services and other emergency vehicles are but a few of the social services that require an efficient road network. We cannot overemphasize the importance of a well-maintained road system for all social services in the province.

Our concern: Expenditures on roads in the province have not kept pace with the needs. Road budgets are falling behind in relative terms compared to other provincial expenditures and in terms of what is required to keep



Ontario's road network at an optimum level. The Ministry of Transportation is responsible for funding most Ontario roads. In the last 17 years, its slice of the total Ontario budgetary expenditures shrank from 13.5 per cent to 5.2 per cent. At the same time, there has been a tremendous increase in road usage.

Today, road systems are carrying more cars and more heavier trucks. During the last two decades, vehicle registration has increased by a staggering 72 per cent. In 1970, there were just over three million vehicles on the road. By 1985, this figure was well over five million. These higher volumes of vehicular traffic are accelerating the deterioration of our road system and creating traffic congestion.

Numerous studies have been prepared in recent years which document the continuing deteriorating condition of our road system and the continuing shortfall in provincial funding to meet the need. The Road Information Program of Canada, TRIP Canada, Ontario chapter; the Ontario Good Roads Association; the Association of Municipalities of Ontario, plus other interested groups, have all prepared studies which have been the source of submissions to the provincial government.

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Most recently, a new voice has been added to the list. This is the Better Roads Coalition, which was formed in 1987, made up of individuals, associations and trade groups dedicated to the preservation and expansion of Ontario's road system. This coalition has identified traffic congestion as one of the major concerns of Ontarians today. Indeed, they cite an October 1987 poll in Metropolitan Toronto which names congestion as the number two item of concern to residents, with housing number one and unemployment number three. The coalition identifies chronic government underfunding over the past years as the major cause of the current problem.

When asked in the recent Board of Trade of Metropolitan Toronto survey what they see as being the most important issue facing Metropolitan Toronto, executives overwhelmingly--38 per cent--replied, "Transportation." To quote their comments, "This concern about transportation is one that shows up in most urban centres--the sheer difficulty of moving people and goods on congested roads, highways and public transit systems," says the Business Journal of January/February 1988.

We believe there is a groundswell of support from both the public and business for additional capital allocations to start giving good road infrastructure the high priority it deserves. We believe the strength of the provincial economy can support this shift in resources and the economic climate is right for the government to make some substantive changes in its financial priorities.

While this association is appreciative that the government has given some recognition to the problems and begun to address them through the Ontario transportation investment initiative, we are very concerned that the government is reacting much too slowly and in too small a measure to the already chronic problems existing in urban areas and in arteries needed to spur economic activity in remote areas of this province.

Conclusion and recommendations: Once a source of pride and a continuing spur to economic development, our extensive road infrastructure is fast becoming a deteriorating transportation network, plagued by costly congestion tie-ups and inadequate capacity. The result of cutbacks in provincial spending

on highways, roads and bridges over the past decade is becoming more and more evident.

The problem is acute and in some sense is becoming regionalized. There are three main areas of concern:

(a) inadequate funding for maintenance and reconstruction, resulting in accelerating deterioration as volumes and weights of vehicular traffic increase;

(b) an economic disparity throughout the province caused by lack of new primary highway development, particularly in northern Ontario, which now obviously requires four-laning of the Trans-Canada Highway; and

(c) congestion, a problem particularly acute in southern Ontario, which if not adequately addressed will virtually stall economic development. Congestion costs all of us in lost time, increased vehicle costs, increased wear and tear on the roads and increased pollution. It is detrimental to our tourism industry and it artificially increases the cost of the goods we buy.

We believe there is a growing buildup of public frustration with the current situation and there is a window of opportunity for the present Legislature to press for additional capital funding to make a more significant impact on the problem.

We realize the problem cannot be solved overnight, but we strongly urge that at least a five-year program be developed and funding be allocated to be specifically spent on new highway construction. The strength of the Ontario economy at this time is second to none. However, the reality and uncertainty of the impact of the Canada-US trade agreement and the aftermath of the recent stock market crash tend to create a somewhat uncertain capital investment climate. A firm, committed, long-term development program would allow companies to plan their capital needs on a timely basis.

We further urge that there be a significant increase in the annual funding for ongoing maintenance and construction.

The time is right for the Legislature to address capital funding for infrastructure in a more creative manner. The Treasurer (Mr. R. F. Nixon), when appearing before the standing committee reviewing Treasury estimates on December 7, 1987, acknowledged that the problem warranted some rethinking of funding methods. We fully endorse this approach and would be happy to discuss some alternatives with the standing committee on finance and economic affairs.

Mr. Chairman: Thank you very much. It reminds me of last year when you made a similar presentation and it found its way into our report at that time, as I recall. I do not know to what extent you were happy with the final results in the budget, but it is an ongoing problem, obviously.

Mr. Morin-Strom: I want to thank the road builders' association for its presentation. One issue that is of particular concern in my region of the province in northern Ontario is the four-laning of the Trans-Canada Highway. Whether that makes sense--certainly the people in the north think it makes sense, when it might happen.

I wonder if you could tell us some information you may have on how other provinces have been maintaining and upgrading the Trans-Canada Highway through



their provinces and how Ontario is positioned in its treatment of that highway compared to elsewhere across the country.

Mr. Ryan: The Trans-Canada Highway is obviously a national highway. In terms of the funding for it, in most of the larger provinces, in Ontario particularly, the funding is strictly a provincial matter. I think in Nova Scotia and perhaps New Brunswick and some of the less affluent provinces there is federal funding, but for Ontario there has not been, I think, since the early 1960s.

There is an initiative right now. The Canadian Construction Association, which is a national association, is pressuring the federal government for a cost sharing between the federal government and the province. They are looking for a total of \$500 million, specifically allocated to be spent on the Trans-Canada across Canada. The federal government initially is throwing it back to the association and saying that, for the most part, Trans-Canada Highway funding is a provincial matter, to go to the provinces.

What we have right now is the province saying, "Go to the feds." The Minister of Transportation (Mr. Fulton) is being pressured, as you know, from the north for funding for the train, and he is saying it is a federal responsibility. The feds are saying it is a provincial responsibility. One of our sort of recommendations for creative thinking on how to fund these things is to at least get together. It is all the same tax dollars.

Mr. Morin-Strom: Passing the buck is what is going on right now.

Mr. Ryan: Yes, we really believe so and, as I say, whether the money comes for the federal government or the provincial government, it is only one tax dollar in the final analysis.

The problem is generally very acute. I know we appeared last year, but I think, even though there was slight additional funding, there has really been no impact on the problem whatsoever. In terms of this new association, the Better Roads Coalition, which is becoming very proactive at the moment, there are genuine grounds for all the public concern about the problems in Ontario. This was something we were not faced with as much last year as we are now.

Our members are genuinely more and more concerned as they travel on the roads. The deterioration of the roads in the past year has increased considerably over the past. There are much heavier trucks, much more traffic, and the building systems in the days when they were built were not built for that capacity.

Mr. Morin-Strom: Do you know which provinces have substantial portions of the Trans-Canada four-laned already?

Mr. Ryan: No.

Mr. Morin-Strom: Do you know what percentage of the highway Canada-wide is four-laned? You do not know that.

Mr. Ryan: No, I do not know. I could not say that.

Mr. Smallman: One thing on that four-laning, as you know, there is a stretch of that Trans-Canada through northern Ontario where there are some bridges and so on. It is the only east-west route, and if it is shut, as it has been a couple of times in the last year, there is no alternative moving east-west, so it really is quite desperate.



Mr. Morin-Strom: I know in Sault Ste. Marie it is particularly an irritation point, probably because we are a border community and we see what Michigan has done with its highways in comparison with Ontario. Ontario really is in an embarrassing position in comparison with Michigan. We have an area of northern Michigan which has a smaller population than northern Ontario and it has a complete four-laned interstate highway, built primarily of concrete, not asphalt, right from Sault Ste. Marie, Michigan, down to Florida. It is I-75, which is a superb highway. It makes it far easier for Sault Ste. Marie businesses--Algoma Steel, for example--to ship their products into southern Michigan or for Sault residents to go down to Detroit than it is for people in the Sault to drive to Toronto.

As a result, the links just do not go in the direction they should. They are providing some assistance in terms of tourism. They bring them into Sault Ste. Marie, but we do not have the highways the Americans are expecting in terms of getting to other communities in northern Ontario.

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Mr. Ferraro: Could I have a supplementary on that?

Mr. Chairman: I will make the comment that I did not realize until this moment that the famous I-75 led to Sault Ste. Marie. It is interesting.

Mr. Ferraro: I have a supplementary on Mr. Morin-Strom's question or statement. You may be right, Karl, but my own experience, having been in Michigan, particularly around the Detroit area, is that their highways are rotten compared to ours. It may be different when you are talking about the big ones up in Sault Ste. Marie. I guess I would like to ask these gentlemen, is that true? Are Michigan's highways that much better?

Mr. Smallman: They have a deteriorating interstate system as well, but they did put in that five cent road tax to fund that and they have a huge accumulation of dollars out of that. I cannot give you a number right now, but I think it is somewhere in the order of \$30 billion in the pot at the moment to go on that. It was held up for a bunch of political reasons, but it is starting to come on stream now and they are getting on with the job. They faced the problem, put in the tax and accumulated the funds and they are really just now getting--

Mr. Ferraro: Recently, then; it really was one of the worst ones in the United States, as far as road construction.

Mr. Ryan: That is exactly why that five cents came in. The five cents is a federal initiative in the US. Most states in the US already have dedicated funding in place; revenues from the taxing systems on cars and trucks are specifically used on roads.

What was happening was that there was not enough money generated, so the federal government imposed this five cents per gallon tax. What has happened with that is that the money is held in trust nationally and it is allocated to the states as requirements are submitted. The problem has become that some of the states feel they need money for other services besides roads, so the money is being held up.

Mr. Ferraro: If I may, just to conclude, do they allocate it on a per capita basis?

Mr. Ryan: Yes. We had a convention just last week. We had a speaker from the feds down in the US and he explained the whole system. It is quite complicated and in every state it varies.

The reason the five cents came in was the total deterioration throughout the nation. This is what we are trying to say to you now. If we do not change the priority shortly, we may be faced with the same problem five or six years down the road.

Mr. Smallman: To give you an example of the kind of numbers, the Texas state funding for interstate in the southern Texas area alone, which is the Houston area and so on, is bigger than Ontario's road budget for the next year. So you get an idea of the numbers you are talking about.

Mr. Pelissero: The weather is a problem there.

Mr. Smallman: Their economy is a bit of a problem, too, down there in that oil country right now.

Mr. Chairman: I recognize Mr. Harris, then Mr. Haggerty, then Mr. Mackenzie and then Mr. Kozyra.

Mr. Harris: On the 13.5 to 5.2 per cent of Ontario budget expenditures, I am not disputing those figures and I am not asking these questions because I do not agree with what you are saying. I agree with the premise that the roads are deteriorating and we have to spend more money, we have to allocate more.

You do not include any figures, though, as to inflationary factors. Everybody uses the piece of the pie argument, because governments are into 85 billion more areas than they used to be 17 years ago, so it makes the numbers look better.

I realize it does not help make the numbers look as well, but it really does help to understand. Have we shifted existing priorities away from roads or have we kept adding new programs and new services? Have you done anything relative to the existing budgets of 17 years ago or have you done anything on an inflation basis of identifying what has happened to the budget?

Mr. Ryan: We go back 17 years but we look at it in a more current sense. We look at it specifically from 1979 to today. To give you a specific example--I have the figures here--the capital construction budget in the Ministry of Transportation, which is just the portion that is spent on provincial highways, in 1979-80 was \$232 million. These are actual dollars; these are not discounted at all. In 1985-86, it was \$202 million. That is a decrease of 13 per cent.

Mr. Harris: In actual dollars?

Mr. Ryan: That is in actual dollars. Comparing that with other ministries, as you know, the Ministry of Health, the Ministry of Community and Social Services and the Ministry of Education during that same period have had a 112 per cent increase. There is only one item in the whole budget that we can see where there has been a reduction in actual dollars. If we discount that, it becomes a 48 per cent reduction. It is actually a reduced amount.

There has been a slight increase in this new initiative that came out last year. In other words, they have added about another six or seven per cent in the final analysis.

Mr. Harris: Is it back to the \$232 million yet? It is about where it was.

Mr. Ryan: Yes, it is close to \$230 million.

Mr. Smallman: It is about where it was in 1979-80.

Mr. Harris: Okay. if you are going to use those years, do you have the figures for vehicles? Is there any estimate on those, 1970-80 versus 1985-86?

Mr. Ryan: I do not have the figures here, but there has been a 36 per cent increase in vehicle traffic in that time frame.

Mr. Harris: So would you say it has gone from four million to five million?

Mr. Ryan: That is right. I think we say 72 per cent for that longer term. Roughly, it is 36 per cent, I am pretty sure.

Mr. Harris: I want to ask something which will be relatively controversial. I know you will not have a total answer but I want to throw it into the mix anyway. A lot of the new programs that have been developed over these time frames, when your budgets disappeared, have gone to provide employment opportunities for the disadvantaged and social programs that have affected women and the handicapped. We had a presentation yesterday from the handicapped. Unless business or industry is prepared collectively to provide opportunities for women, the handicapped and the disadvantaged, it strikes me that government is going to do it.

We are doing more and more of that. We are doing far more now in 1987-88 than we did back in 1970, when your budget problem started. But unless your industry does its share, and all industries do their share, government is going to do it. I bring this up because every time the government gets an extra cent of gas tax, or an extra million or billion dollars, it is going to get that money. They have been getting it from you for the last 17 years, whether it is in health care or social services.

A lot of it is aimed at providing more fairness in distribution of wealth in Ontario. It strikes me that unless the private sector specifically--and that means you have to tell us how can you employ the handicapped in your industry and how can you give more opportunities for women.

Mr. Smallman: That is a bit out from one side which we did not come quite prepared for.

Mr. Harris: Yes, except you have to take that pressure off the government. If the private sector does not do it, they are going to keep winning the dollars because they have done it. I am not saying unfairly either that the government part has been wrong; it is what has happened.

Mr. Smallman: OK, I cannot answer that fully. Obviously, ours is a very heavy-labour industry in large measure. Our workers' compensation



problems speak to that. We are trying to recognize and solve some of those back injuries and some of the things that come out of that, so that for the seriously handicapped it is very difficult, except in clerical functions.

Some things we have done, though. Particularly, for women in construction, we have set up a program in the last couple of years, through Sheridan College of Applied Arts and Technology, to recruit and do an orientation program on these people and, through the unions, to do a training program. We are moving them in in reasonable numbers.

We tried in the past on an "Oh, let's go out and hire a woman and put her on a machine, to have our token woman" basis. It really does not work. You have to have a full ongoing program, bringing in groups and giving them support and very basic gut training--like, this is a shovel and this is how you use it. That is under way now and it will take a few more years before you see major numbers, but there are women sitting on our machines and there are women pulling rakes in our crews now and it is coming

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Mr. Harris: You would agree that, as you become more mechanized, that advantage of physical strength which gave able-bodied men an advantage over the disabled and women is diminishing?

Mr. Smallman: From the point of view of the operating engineers--and you have to tie this to the unions where there is some resistance to some of this too--the machines are now basically electrically controlled and, with manual dexterity and the ability to sit there and concentrate, in general, women make better use of that than men do, quite frankly.

Mr. Harris: Can somebody in a wheelchair not hold that stupid flag up at both ends of the road, things where you have to have two people on there?

Mr. Smallman: I am not sure I would be prepared to take that responsibility.

Mr. Ryan: It is a very tricky situation; in fact, there is a lot of liability involved in terms of that specific instance.

Mr. Harris: But whether they are sitting in a wheelchair or standing up, do you really not feel they could handle that function?

Mr. Smallman: Personally, no.

Mr. Ryan: I would not think so.

Mr. Smallman: They have to be able to move about and have sight lines down the road and so on. I think it would be very difficult for them, and they would not be as visible because they are lower.

Mr. Harris: If we could figure out some way to get them up a couple of feet, that would do it. I do not know. I think it is obviously not a problem you can solve, but collectively, industry has to solve that problem or government is going to continue, regardless of who is in government, to try to solve it.

Mr. Ryan: I would just like to add to what you said. The Canadian Construction Association, CCA, which is the national association, belongs to a program called PEP, which is positive employment practices. Because of the work they have done just in that area--in other words, employing minority groups such as women and the disabled--they have been exempted from all federal contracts. In other words, they do not have to apply, because it has been, in effect, accepted that they have done as much as they can in that area, as long as they keep in that PEP program. That is a very positive instance of the construction industry working on the problem very hard.

Mr. Harris: Okay. Let me just conclude by saying I think industry has to understand that every time it does not hire someone who is disabled or economically disadvantaged, when government gets more tax money that is where it is going to go. I think we have to recognize that; that is what has happened. I am not saying it is wrong.

Mr. Smallman: One final comment from me on it is that our industry in general, particularly in the area where most of those kinds of people are, which is the major cities where the services are, is highly unionized with union hall hiring. It is very difficult.

Mr. Harris: They have to address the problem too. That has to be addressed at the labour side as well as at the management side, because if they do not get out and earn the wages and they do not get the pensions, then they not only need help throughout life, but they need other help. If women do not have good-paying jobs, they do not have any pensions, and government is more and more involved.

Mr. Smallman: It is much easier to move them out into the workforce at this point.

Mr. Harris: At the end you talk about rethinking funding methods, and you are happy to discuss some alternatives with us. Are toll roads one of the alternatives?

Mr. Ryan: Yes, one of the possible alternatives. I think it is really not our position to make recommendations for funding. We really do not think it is our mandate. Toll roads is certainly one issue and there is a dedicated funding application, in other words, taking some portion of the tax revenues from gasoline and excise taxes and applying that. We mentioned about working with the federal government, a sort of tie-in between the province and the feds because it is a national problem. There are things of that nature. I mention that specifically because Mr. Nixon mentions that, as recorded in Hansard. He mentioned toll roads as well as a possibility.

I think in terms of another aspect of it, some long-term bonding requirements established by the province, which is funded or repaid over 15 or 20 years and allocated on a 10-year basis. These are all sort of a little different. Sometimes we are asked if we recommend expenditures on roads while reducing the deficit. Obviously, we are all interested in reducing the deficit, but I think expenditure on the roads is sort of a capital investment; it is not the same as a direct expense. If you are spending money on a capital investment, really, it is not an expense item; it is a capital item. I think we should look at that in that sense.

If we look at the way the finances are handled in the province right now, sewers and water mains--underground services--are capitalized, whereas roads are expensed. From an accountant's perspective it is questionable as to

whether you can capitalize the roads. If you did that, it would not show as an expense item.

In the new government, they have broken down their allocation by departments into capital accounts and operating expenses, which is a new approach, but again, they are still shown as expense items in the budget.

Mr. Harris: Yes, but as I pointed out a couple of days ago, they may capitalize some of that stuff, but the provincial government does not depreciate any of it.

Mr. Ryan: No.

Mr. Harris: I am not sure that would not more than offset it, for creative accounting purposes, in showing that it is really not a deficit because so much is going into capital. I think that is why we do it.

Mr. Smallman: From our point of view, we are not going to try to tell anybody how to run their government, obviously, but the numbers that will be necessary in all likelihood in the next decade are so huge that some sort of dedicated funding will probably be required, because that big infrastructure out there is deteriorating badly. If it is fixed at the right time with an overlay or something, it will be maybe \$100,000 a mile. If you leave it another five years, the way it is being beaten, it will be \$1 million and something a mile. You are going to get into very large numbers.

Mr. Harris: I agree. OK, I had better pass.

Mr. Chairman: Just as a point of information, the economic outlook that we have, on pages 59 and 60, has charts showing the distribution of expenditures in Ontario 10 years ago and now. It looks as if the area that would include roadbuilding has gone down while health, education, colleges, universities, social services and interest on the public debt have all gone up as percentages.

I have the resolution here that we actually passed in this committee last time as a result of your presentation: "The government, in conjunction with the federal government, should address the need for increased transportation capital works projects and recognize the importance of maintenance to the existing road transportation network over the next five years. Additional taxation revenues from the transportation sector should be considered to partially fund this program.

Maybe we should consider advocating roadbuilding as capital works, because it might well be easier to contemplate in a deficit situation if we consider it capital works rather than ongoing cost.

Mr. Haggerty: On page 2, "Economic Development," can I have a further explanation of one paragraph in there? You talk about the competitive world. "The realities of the Canada-US trade agreement, which will boost aggregate demand and stimulate industry in general, and the already stiff international competition...." What do you mean by "boost aggregate demand"? Are we talking about exports?

Mr. Ryan: I think a bit of each. Actually, that quote is taken verbatim from the economic forecast of the Treasurer (Mr. R. F. Nixon). If you look at it, that is the actual phrase he used himself. Even though he is, I



guess, opposed to free trade in principle, he still acknowledges that there will be an increase in demand.

Mr. Haggerty: The reason I asked that question is that back in the early 1970s the Ministry of Natural Resources came up with a proposal on the matter of an aggregate tax.

Mr. Ryan: Excuse me, it is just the terminology. It is semantic. "Aggregate" to mean total, not stone.

Mr. Haggerty: I see. You were talking about roadbuilding and I was thinking of aggregate.

Mr. Ryan: I know. I noticed that afterwards and I thought, "Gee, I hope there is no confusion there." It just means total demand.

Mr. Haggerty: OK. In my area there are some quarry operators who are exporting aggregate to the American side. In 1970, the Ministry of Natural Resources at that time indicated that there would be additional royalty tax put on the aggregates--that is, the crushed stone and gravel--which would generate additional revenue for Ontario. Some of it was to be reimbursed to the municipalities. I forget the number of millions of dollars that would raise.

In your brief last year and this year, you have indicated that more expenditures should be made on the roads, and as my colleague Mike Harris has indicated, where do the bucks come from? Every ministry is fighting for that dollar and the one that carries the most clout, I guess, would get it. If we enter into the free trade arrangement and the deregulation of our trucking industry, I can assure you that you are not going to get the roads. The Queen Elizabeth Way and Highway 403 will not carry any more traffic coming into Toronto. There has to be expenditure in that area someplace to relieve the congestion of the roads in that area.

The question is, where does the money come from? We have seen in the federal budget just recently where the Minister of Finance, Mr. Wilson, has put another tax on gasoline, one cent per litre. That money is not earmarked for any special thing. Should it go to further exploration on oil or should it go to road building, say, the Trans-Canada Highway? This is one of the problems. We talk about our neighbours to the south and free trade. You can get in a car and right now you can go over and pay the exchange on the Canadian dollar and still buy gasoline cheaper on the American side than you can here.

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Mr. Chairman: What you want to know then is where they feel we should get?

Mr. Haggerty: Where should we get additional revenue?. Mr. Harris mentioned toll roads. I happen to be from the Niagara region. Back years ago, I raised the matter on different occasions in the Ontario Legislature and asked, "Why?" I am not opposed to tolls, but why single out the Niagara region? We have two overpasses there and, really, the industries were being penalized. Yet there are bridges in other areas, on the Macdonald-Cartier Freeway or Highway 400, and there were no tolls at all. Is this an area we should be looking at, user fees?

Mr. Ryan: It is an alternative. We are not making that recommendation, but that certainly is an alternative. If you recall our submission last year, we made a specific recommendation that there should be a dedicated one cent a litre from the present gasoline tax used specifically for our roads. That is sometimes difficult to press for because it means an increase in taxes, but you can take the one cent that is already built in. Of course, that does not give you extra revenue, but you can take a portion of that for the maintenance of the roads and then perhaps add a specific one cent a litre for new construction.

I think you have to look at the problem. We talk about the moneys needed right now and they are substantial, just to maintain what we have. In terms of what the requirements are to put in the new highways, to put in the twinning of the Trans-Canada and Highway 407, we are talking about hundreds and hundreds of millions of dollars. This has to come from another revenue stream of some sort. This is why the states jumped in with this five cents a gallon. The situation became so critical they had to do something like that.

Mr. Haggerty: That is earmarked.

Mr. Ryan: Yes, that is earmarked.

Mr. Haggerty: We have had that five cents a gallon here, you might say, in this latest tax increase from the federal government, but it was not earmarked for anything.

Mr. Ryan: As you know, the Treasurer is totally opposed to any dedicated funding, insensible, but just last week, as mentioned in Hansard, he said, perhaps we should be looking at the whole thing.

Mr. Haggerty: I had some research done back about seven years ago, and I have used it a number of times in committees, that showed that 65 per cent of the cost of operating the road system, building roads and maintaining them, is generated through special taxes. The other 35 per cent comes out of general revenue. That means a lot of people out there who are not even driving a vehicle are supporting the road system.

Mr. Chairman: What do you mean by through special taxes? What special taxes?

Mr. Haggerty: The 65 per cent of taxes generated for road levies in Ontario is generated through automobile taxes, drivers' licences, gasoline tax, fuel tax and all the way through that. The other 35 per cent is generated through the consolidated revenue. In other words, there are persons out there who never drive a vehicle, who are paying a road tax.

Mr. Chairman: I think what the witnesses are suggesting is it should be a specifically dedicated tax as opposed to--

Mr. Haggerty: I am trying to get through to them and see if they will come out and say, "Yes, we support tolls in Ontario or user fees."

Mr. Smallman: We do not wish to get involved in telling the Treasurer how to fund his projects. We wish to present the need and discuss the magnitude of it. There are many people out there without children who are supporting the school system too.



Mr. Haggerty: That is right. When you look at the American side, building their state highways is done through a process of debenturing the roads over a period of five years and paying tolls for 10 or 20 years. It does not show as a provincial debt then.

Here, when we talk about free trade and the displacement of workers that is going to occur across Canada and we are looking for employment, maybe that is an area the government should be looking at. In that displacement, revenue could be going towards roadbuilding and creating jobs that way for a period of five to 10 years. There are ways of going about it.

I was hoping you gentlemen would come forward and say, "Yes, I think this is an area where we can get additional revenue and we will go out and carry out this program."

Mr. Ryan: We certainly agree with that. Any creative bookkeeping you want to do, that is fine. We agree with any creative bookkeeping.

Mr. Haggerty: The question here is, as Mr. Harris said, there are other priorities too in the province. How do we go about looking after the handicapped persons and so on? I think he is quite correct when he says you can use a number of them in your industry, but not perhaps out in a wheelchair on the road where they are rebuilding the road surface. It would be rather difficult for that person to navigate out there, but they could be used in payroll staffing and other areas where they could be trained.

Mr. Ryan: Even today there is sort of a dedicated funding in place for roads at a municipal level. There is not supposed to be but there actually is, because a municipality makes a submission to the provincial government for funding for its needs.

Mr. Haggerty: For 50 per cent.

Mr. Ryan: That is right, but they never receive the 50 per cent. They may get 30 per cent.

If that particular municipality goes ahead and does the work that is required, it then has to go to the local taxpayers and increase the taxes to pay for it. So there is a dedicated funding, in that sense, of local municipalities. Local home owners are sometimes paying for roads in their areas, which they do not realize because it is part of the total package.

It is not something which is totally new. If you go to a dedicated allocation province-wide, it is probably in the final analysis fairer for both provincial highways and municipalities.

As I say, we are not making recommendations, but we believe the time is right for you, as a body, to start looking at some other means of financing, because the situation is so critical.

Mr. Mackenzie: I have two or three questions, but before I get into the specific questions, I want to go back for only a moment, because I think we have almost beaten it to death, to this, "Where does the money come from?" This committee is supposed to look at prebudget but also tax reform.

I think the strength of the argument is that you have a deteriorating stock and all of us who are driving on the highways know it. We also know that roadbuilding is a labour-intensive industry, so your strengths are obvious. Your weakness, quite frankly, is the argument you keep making, "We are not here to tell the Treasurer or the province or anybody else how to raise the money."

It would seem to me that it is a legitimate question that has been asked by both Mr. Harris and Mr. Haggerty. What would you be suggesting in the way of additional revenues? Is it an additional tax on gas? Is it toll roads? You sort of skate around it; you are not here to recommend it, but one almost gets the impression that is one of the things you would be recommending.

I think your brief would carry a heck of a lot more weight if you had laid out some options. Most of the groups before us are after more money. A few of them do suggest alternative taxes. The argument usually comes down to whether or not it is a more progressive form of taxation. It seems to me your case is a strong one but it is weakened by the fact, "We are not going to make any suggestions." I think that is exactly what this committee is looking for. At least I think it is one of the things this committee is looking for.

Mr. Harris: They did that last year, and we went ahead and raised the taxes and gave them the money anyway.

Mr. Mackenzie: That may be, but if the situation is as serious as it is, then I think one of the things we are looking for is just what you are suggesting to us. I would leave this meeting saying, "Hey, you didn't say it, but you would certainly like to see toll roads again." I might be on an opposite side on that issue, but I am still looking for what you are suggesting in the way of actual recommendations.

You might think of that. I do not know that we can beat it to death any more now, as I say, but it does seem to me that is actually the weakness in your brief. Your case is a good one in making a case for more money, but somebody has to tell us where the hell it is going to come from; how they feel it is going to come--not necessary tell us, the government will still make those decisions, but at least make some suggestions.

Mr. Ryan: I think we would certainly recommend a one-cent-a-litre increase in the price of gasoline, dedicated specifically for roads. This was our submission last year. In terms of what that generates, that generates between \$120 million and \$130 million in Ontario alone. Our problem right now is to make our recommendations. As you know, the federal government did that two weeks ago.

Mr. Neumann: To replace lost tariffs.

Mr. Ryan: We would make that recommendation for that money to be spent on new roads. In terms of where the money comes from, you can say that every ministry, if you look through the accounts, has its own needs, and obviously none of their needs are met fully. It is a question of the Treasury making that allocation itself, and that is all we are trying to say. We really believe it is time to change your priorities.

The other aspect of it is that the moneys required in terms of solving the problem are large within the ministry itself, but globally, as part of the total provincial budget, they are not that great. In the latest quarterly



statement of Ontario finances, where the expenses have increased over the past year by another \$113 million, if you look at where all those increases came, it is through all the so-called soft costs.

Even with the Ministry of Community and Social Services budget of \$3.551 billion, they still needed \$134 million in the first quarter. What we are looking at in the Ministry of Transportation is a much smaller budget, and an increase of \$100 million would go a long way to solving the whole problem. The Health budget, the social services budget, the Education budget increases required are 10 times the size of what we are looking for.

Mr. Mackenzie: Let me go to a couple of specific questions I have. One of the areas which shows the overload on the roads is the Queen Elizabeth Way and parts of Highway 401. Certainly, if you drive regularly on the QEW, you know what you are up against. This morning I feel twice as fresh and twice as good because I got through in one hour and 18 minutes, which is the fastest I have done it in two or three weeks, coming from Hamilton to here.

I am not sure the answer to the heavily congested areas such as the QEW is roads. I have grave doubts, even if we could double that highway, and I think the cost would be totally prohibitive, that it is the answer. It seems to me that in an area like that, rail has to be the answer, rapid and often and from point to point, that will move the people.

Do you have any comments in terms of the highway? Anything you did with it would be a major expenditure, so have you thought of alternative measures such as that? Not that it is unknown, because people have talked about it for a long time, but do you think that congestion can be eased with additional highway construction in the Golden Horseshoe area?

Mr. Ryan: There are all sorts of alternatives. The thing is that 94 per cent of all goods shipped go by road today, and that increases every year. I think the railway system is an alternative, but I do not think it would solve the problem. It could be a people mover. We are not making a predilection for roads as opposed to transit, but that is part of the overall problem.

Mr. Mackenzie: Does your organization have any reaction to bills which I think also have an effect on the highways? I am talking now about the trucking deregulation, or the current campaign for larger trucks that seems to be starting again by the trucking companies.

Mr. Ryan: No, we do not. I know the trucking association's concern, but we do not get involved in that area so much. We are concerned, as road builders, with the sheer size of the axle loads on the highways today. This has created part of the problem. We are not blaming anybody, but that is the fact. That is what has happened. I do not think the initial engineering for the roads was geared to--

Mr. Smallman: Maybe I can address it. The initial engineering on many of the roads built today simply was not designed for the loading we are allowing. I think Ontario allows, and you can check this, the heaviest axle loading in North America right now.

Mr. Mackenzie: We face additional potential cost if we end up with even heavier trucks on the road.

Mr. Smallman: Yes. Roads can be built to accommodate them, but it is a heavier cost, certainly.

Mr. Mackenzie: One final, small question. You say recent currency realignments will further encourage foreign visitors. It may encourage Canadians to stay here, but I take it you are talking about offshore visitors. It seems to me that the currency realignments are likely to restrict, rather than help additional American visitors. I think it is a small point, but it seems to me that the lower our dollar, the more likely they were to come in.

Mr. Ryan: Oh, sure. We are not talking just the current increase in the Canadian dollar. We are talking about devaluation against the yen and that type of thing where we are having all these Pacific countries' visitors coming in and that type of thing.

Mr. Kozyra: I am not sure whether what I have to ask has been asked and answered already.

I am from the north as well, and the four-laning is a primary concern. It certainly took a priority status in the last election. Also, I am fully aware of the realities that with the pressures down in southern Ontario, specifically Metro and so on, the fact that they arise so much more rapidly, if money is to be allocated and there is just a limited amount, as there always is, it once again may come here as opposed to going to the four-laning.

For that reason, I am a firm supporter of dedicated funding as one of the very top alternatives to be considered. I firmly believe the public accepts the concept of extra taxation more readily if they can see specifically where it is directed and what is the beneficial result. I will certainly be putting my two cents' worth this way.

Mr. Neumann: One of the areas that you highlighted in your brief is most significant, and I am wondering if you have anything to back it up more specifically, but it is my gut feeling, having gone through this issue over many years at the municipal level--I am from the city of Brantford, by the way.

Mr. Smallman: And Waterford. I went to Waterford high school.

Mr. Neumann: And Waterford high school, thank you. This is one area where, if spending is increased, you get a return in economic development, new businesses and increased taxes through the income and business taxes. Has your association done any research into this?

Mr. Ryan: Not to any great extent, no. We could not really, except there is a triggering effect of \$1.85 for every dollar spent in construction. This is the kind of analysis that we did on the initial TRIP Canada report. That covers that area.

Mr. Smallman: As a further multiplier of ongoing industrial development and so on, we really do not have those stats.

Mr. Neumann: I understand the multiplier argument. What I am getting at is the infrastructure argument. Ontario has had over many years a fairly good infrastructure and it is in danger of running down. I think a lot of the economic development has occurred in this part of Canada as a result of an excellent infrastructure. Would you not agree?



Mr. Ryan: No question. Actually, we have this material. I mentioned the Canadian Construction Association. When they were lobbying for the \$500 million nationally for the Trans-Canada Highway, this was their submission to the government of Canada. They have a very detailed economic analysis of what the effect of lack of funding for highways was on the gross national product. That covers it nationally. This was taken from some United States studies, I think. "In 1995, deteriorating highways will negatively impact on the economy and the gross national product. The economic variable will be a reduction of 3.2 per cent." Then they go through all these areas, price indices and things like that, everything that is affected. That is on a national scale.

Mr. Neumann: The other question I was going to ask, which I think you have partially answered, is the question of the relationship between increased needs in this area of roads and the provincial deficit. You may not be aware that when the Treasurer was here on Monday, in answering some of the criticism about the increased deficit, he said that one must put it in perspective. Ontario's current deficit is far less than what the province spends on capital projects. I think in part of your answer you made a tie-in as well. Do you share that view?

Mr. Ryan: Yes, very much so.

Mr. Neumann: If you are investing in the future in a capital sense, it is not the same as a deficit on current spending.

Mr. Smallman: Businesses would really look on this as a capital investment for the province, because the economy of the province absolutely requires it to function.

Mr. Neumann: I just want to close with one comment. I believe quite strongly in not allocating. I think the Treasurer is right in not allocating specific targets from different kinds of taxes. However, I think transportation and roads are one area where one could make an exception. I am not a big fan of user fees, either; I believe in fairness in taxes. But transportation is one area where there is a logical relationship between the spending on gasoline and roads. The people who use the roads, the people who have the cars then pay for them.

I am wondering whether you have done any analysis on how much Ontario collects from its gasoline taxes and other transportation-related fees, such as drivers' licences and so on, and the expenditure on roads and road maintenance.

Mr. Ryan: The whole Ministry of Transportation budget is currently about \$1.7 billion. The total revenues generated from gasoline, diesel fuel, licences and fees is about \$200 million more than that. There is an excess revenue that comes in over the total--

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Mr. Pelissero: Provincially owned?

Mr. Ryan: Provincially owned only. You will see that figure used--I know the Canadian Automobile Association particularly pressed for that. They are saying, in effect, there is an extra \$200 million coming in on car- and truck-related revenues that is being spent by the total budget itself. We agree with their figures but we do not know what that means. We have never looked at it in that perspective because we realize there are other expenditures within that ministry.

Mr. Neumann: You are quite right. At the municipal level there are targeted dollars.

Mr. Ryan: Sure.

Mr. Neumann: When I was mayor, I know we got unconditional grants from the province and we could spend that on whatever we liked, but in the transportation area it was targeted to roadbuilding in the community and it came from the Ministry of Transportation rather than Municipal Affairs. That could easily be extended on a provincial scale.

Mr. Ryan: There is one other point I would like to make. Looking at this, the December 31, 1987, quarterly review of Ontario Finances, when you look at the excess expenditures, the capital account has actually gone down by \$73 million. The reason for that is, and I will just read the comment: "Capital account: \$86 million decrease, reflecting project underspending in several ministries."

That is another area we have some concern with, the fact that when we spoke to the Treasurer last year, he made some comments that even if there were moneys available, he did not think the Ministry of Transportation would have the facilities to spend that kind of money. We did not agree with that, because that money can be--often it is just a question of engineering to get at the problem itself.

Mr. Neumann: There is a lead time required to--

Mr. Ryan: No question, but what has happened in that particular ministry has been a cutback in personnel.

Mr. Neumann: Yes.

Mr. Ryan: They still go to consultants, and really the point we made was that I am sure the municipalities will be able to spend the funding going to them because of the shortfalls in those municipalities.

Mr. Smallman: There is a lead time, but there are many projects ready and on the shelf just waiting for funding as well.

Mr. Ryan: Yes.

Mr. Pelissero: Coming from the riding of Lincoln and hooking up via the Queen Elizabeth Highway where it is two lanes now, and knowing, in some cases, the amount of land available on either side to go to the third and the fourth lane, that was certainly a topic that came up during the election campaign with respect to moving tourism, moving goods and services, certainly getting around to the Burlington side, where there are three lanes or four lanes most of the way in.

I think we should give consideration to having two lanes, basically from Stoney Creek down into Niagara Falls and right into Fort Erie, but I have to rethink how we do that. I share some of the concerns of Mr. Neumann with respect to dedicated funding but I also see that you can make some kind of a case for road maintenance and road construction.

I am just interested in coming at your association's perception of what you think the government's priorities are now. We hear groups come before us representing different sectors and they all say, "It is time to rethink our



priorities." I am interested, from somebody else's perspective, in what you think our priorities are now that we need to rethink.

Mr. Harris: Get re-elected.

Mr. Pelissero: Other than that one, Mr. Harris.

Interjection: In other words, what should we cut down on?

Mr. Pelissero: No, but we have groups appear before us, and I made the same pitch as the president of the Ontario Federation of Agriculture that government needs to rethink its priorities. Sometimes the perception is that the government is leaning in this direction. In fact, we may be going totally the other way. I just ask this as a--

Mr. Neumann: Are you pushing tourism now?

Mr. Pelissero: Yes, I am pushing tourism now, that is right, but I am just asking from the aspect of what you think in terms of realigning our priorities. If in fact, using some of the information you use, housing is identified as number one, number two is the transportation system and number three is employment, what else do we need to be realigning in terms of our priorities now?

Mr. Ryan: I think the figures speak for themselves in terms of where the money has been going and where the tremendous increases are in all the so-called soft costs. We are not saying they should not be spent, but it seems to be an open pit. Money seems to pour into these various programs. New initiatives are coming out all the time and more expenses for all these areas. I would not like to say specifically that we do not agree with any of them. I think they all should be looked at.

Mr. Pelissero: Fair enough.

Mr. Chairman: As you can see, as it goes through these hearings, this committee tends to feel itself in a vice to a certain extent. We will be hearing this afternoon from the hospital association, which will probably say it is time to rethink our priorities. We heard from educators and the disabled yesterday. But your presentation obviously did have a strong effect on the committee last year, and I expect it will again this year. I appreciate your coming and making it to us. I am sure you look forward to our report and the budget, which is due in April.

Mr. Neumann, do you have a comment?

Mr. Neumann: I know you are anxious to get on. Can I just get in one more comment?

Mr. Chairman: Sure.

Mr. Neumann: I know that one of the areas the economists are looking at throughout the western world, related not only to transportation but also and particularly to the environment, is that when businesses are out there doing business, they sometimes cause a diseconomy outside of their business. For example, business might make a profit but at the same time create pollution the cost of which somebody has to pick up later. What some economists talk about is the need to internalize these external diseconomies into the cost of doing business so that it is paid for, included in the price of the product and so on, as we go.

Have you done any economic analysis within your industry as to whether there is a fair division of the burden between the car driver, who is commuting to work or going on a vacation, and the business of transporting goods--industry producing goods and transporting them--to pay for roads, the cost of transportation between those two segments, the big trucks versus the little cars?

Mr. Ryan: Not really, Mr. Neumann, no. We have not really gone into that depth on any analysis.

Mr. Neumann: On the one hand, I said that building the infrastructure is going to help generate business. On the other hand, is business paying its fair share of the external costs it creates through using the roads?

Mr. Ryan: Good question. We do not have any answer to that one.

Mr. Neumann: You have not seen any studies?

Mr. Ryan: No, we have seen nothing on that.

Mr. Chairman: Mr. Haggerty has pointed out a rather interesting fact. In the last year, gasoline tax and fuel tax revenues have gone up about \$45 million compared to the amount apportioned to the Ministry of Transportation, which has gone up \$5 million. Interesting.

Mr. Harris: Can I ask one other thing? It is throughout, which is why I bring it up. We are looking for new sources of revenue. It will be very controversial and the trucking association will write to me now and ask me what the hell I am talking about, but your brief points out that trucking is increasing significantly in Ontario. It strikes me that vis-à-vis rail or other modes of transportation, trucking has become far more dominant. Would that not lead one to conclude that to enable them to compete with other forms of transportation, there is perhaps still room in the taxation system for them to contribute more to the roads?

Mr. Ryan: The answer to you on that, unfortunately--

Mr. Harris: I want you on the hook with me here.

Mr. Ryan: I know. I can see that.

Mr. Smallman: You saw us both duck back from the microphone.

Mr. Ryan: What they would say to you in that sense is that they already have the problems with the so-called deregulation, which they call deregulation and the ministry does not call deregulation, with the American truckers coming in. If there are any more increases on their taxes, they will be at more of an economic disadvantage than they are today.

Mr. Harris: As long as we figure out how to tax the US trucks the same. In other words, it is based on usage of our roads. Let us face it, the increased use of trucks has to do a lot more damage to the roads than my car does.

Mr. Smallman: When you look at the Queen Elizabeth Way area as an example, I think something like 55 per cent of the traffic in peak areas now is trucks. They are a heavy user of the road.



Mr. Harris: If they are taxed fairly in the industry, whether it is an Ontario company, a Canadian company or a US company, the only argument they would have is their competitiveness versus other forms of transportation. Right now, they appear to be far more competitive. There is quite a growth industry.

Mr. Chairman: Thank you very much.

Mr. Ryan: Thank you. We appreciated the opportunity to speak before the committee, and thank you all, members.

Mr. Chairman: We are going to put on our other hat now and discuss proposals for independent studies.

Mr. Harris: If you do not give Mr. McCague a vote, I will not allow you to have two different committee meetings on the same day. I ask for unanimous consent to give Mr. McCague a vote and a voice, or else I do not think you can convene the meeting in this way. He has made two trips down here from his riding, one on Monday and another today, specifically to deal with this issue. If you cannot figure out a way to accommodate that, then I would suggest it is all out of order.

Mr. Chairman: As chairman, I have no problem with Mr. McCague having a vote. Is there any problem? Mr. McCague has a vote.

The three proposals we have considered are in front of you. I wonder if the committee would consider going in camera because we may be discussing personalities, in so far as retaining experts is concerned. Perhaps we could adjourn the formal portion of the meeting until two o'clock.

The committee continued in camera at 11:10 a.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

PREBUDGET CONSULTATION AND TAX REFORM

WEDNESDAY, FEBRUARY 17, 1988

Afternoon Sitting







STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)

Haggerty, Ray (Niagara South L)

Kozyra, Taras B. (Port Arthur L)

Mackenzie, Bob (Hamilton East NDP)

McCague, George R. (Simcoe West PC)

Morin-Strom, Karl E. (Sault Ste. Marie NDP)

Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Harris, Michael D. (Nipissing PC) for Mr. McCague

McLean, Allan K. (Simcoe East PC) for Mr. Villeneuve

Also taking part:

Polsinelli, Claudio (Yorkview L)

Clerk: Carrozza, Franco

Staff:

Anderson, Anne, Research Officer, Legislative Research Service

Witnesses:

From the Ontario Hospital Association:

Cunningham, Gordon R., President

Rudy, Willis A., Vice-President, Member Services

From the Ontario Natural Gas Association:

Pinnington, Paul E., Managing Director

Anderson, Jim R., Chairman, Finance and Accounting Committee; Vice-President  
and Controller, Union Gas Ltd.

From the Toronto Stock Exchange:

Larocque, Marie-Josée, Manager, Economics and Government Affairs

Rive, Steve, Senior Economist



LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday, February 17, 1988

The committee resumed at 2 p.m. in room 228.

PREBUDGET CONSULTATION AND TAX REFORM  
(continued)

Mr. Chairman: As a point of information, I should inform those committee members who had to leave early at lunch that we did pass a resolution which concerned itself with the first of the three proposals. I will not try to restate it right now, but it will have to be dealt with again, after we know what the Board of Internal Economy says. We will be reporting back to you shortly on that.

We raised the question of the second proposal, which had had some support and some composition. Mr. McCague indicated support for it and expressed some views as to Professor Whalley from the University of Western Ontario being appropriate. We will have to discuss that matter again and we have not set a date for that. Mr. McCague would prefer it be next week because he is not dealing with the prebudget stuff.

Mr. Ferraro has a matter. I do not know when you wish to raise it. Right now?

Mr. Ferraro: I might as well, briefly. I read the article in the Toronto Sun this morning by Mr. Rae. I acknowledge the fact that he says our committee should indeed go to Washington and so forth. The article is in regard to the travel of various committees of the House. But I do take exception to one statement he is quoted as making. It says, "Rae said committees weren't allowed to travel anywhere during the two-year Liberal-NDP accord."

I just want the record to show that is not true at all. I am assuming he was quoted correctly. Indeed, to my knowledge, during that period this all-party committee went to Washington three times. I do not know whether we, as a committee, want to just let it stand on the record or send the reporter a letter. I just make that point for the record.

Mr. Mackenzie: I do not know where the "at all" came from, but committees were, as you know, severely restricted in the last two or three years. There has been a rather amazing opening-up of committees in the past few months.

Mr. Ferraro: I never felt I was restricted, but that is opinion, I guess.

Mr. Chairman: I am prepared to do whatever the committee wants me to do. If they do, though, I should point out that I read a story in the Globe and Mail pointing out that our committee goes to Washington an awful lot, including the last two years.

Mr. Ferraro: It is on the record.





Mr. Mackenzie: It has no relevance.

Mr. Chairman: I guess that means you should read more than one newspaper. A wise man once said the press is always right and even if they are wrong, the press is always right.

Thank you, and apologies to our guests for that interesting interlude.

Mr. Ferraro: Digression.

Mr. Chairman: Digression.

We have with us this afternoon the Ontario Hospital Association, Gordon Cunningham, president, and Willis Rudy, vice-president, member services. The association's brief is exhibit 34 and was distributed on Monday. We have extra copies if people did not bring their copies with them.

Gentlemen, I describe ourselves as being in a bit of a vise because we are hearing lots of submissions about where our resources should be going. I am sure that is not a surprise to you, but bearing that in mind, I look forward to your presentation.

#### ONTARIO HOSPITAL ASSOCIATION

Mr. Cunningham: We come with respect for the job that you have to do, to look at our resources. We did submit a brief, and I propose to very quickly take you through that brief. Then we are available for any subject on hospital financing. We are at your service, if you wish to ask us any questions.

In our brief, we first have a white page which attempts to describe the association. We are a voluntary association of all of the hospitals in Ontario, including the psychiatric hospitals operated by the government. We have two functions. We are advocates for the hospitals. Each hospital is separately incorporated. Each one is autonomous and can speak in its own right, but we attempt to be the collective voice of the hospitals.

We have shown, in the brief, some of the activities of the hospital association. We do joint purchasing in order to keep the costs down. We operate benefit plans, pension plans and group life--the type of benefit plan that makes for being good employers.

We have educational events to keep our members up-to-date. We are an active association that began in 1924 and, of course, it is in that context that we come to you this afternoon to speak on behalf of all the hospitals in the province.

We have a yellow page inserted into our presentation, and we attempt, on that, to distinguish between operating funds and capital funds. In the modern hospital system in Ontario today there cannot be a clear distinction because of what has happened. We point out on the top part of the page that by "operating funds" we mean those funds given to the hospital each year to conduct its operations. Most of them come from government, although there are other sources of revenue.

The broad system under which our hospitals are funded is that each hospital is granted a global budget and that global budget is adjusted each year for some factors. The major factor is inflation. There is an inflationary





increase and, in addition to that, we are given some recognition of the growth in the system that takes place because of increased activity and for some programs, which are called life-support programs. Those are programs such as kidney dialysis, where a patient would die if he were not allowed access to that program.

We then go on to speak about capital funding. Capital funding is of some very real concern to us but, again, it is a blend of several things. When we talk about "capital funding," we mean the funding needed each year to update and replace worn and outdated equipment, those funds that are needed to introduce new technology, and we mean funds for our buildings and our facilities.

It is generally true that it is up to the hospital to find its own funds for its new technology and its new equipment, although there is a depreciation allowance for that.

The funds for building generally come two thirds from the province and one third from the local community. That is not exclusively, entirely true, but that is the general funding formula.

One of the problems we have encountered, particularly since 1984, is that we have seen a decrease in our working capital. That decrease has really come about because we have been using some of our surplus funds for operations. Our shortage of capital has been a major source of concern to us because we are concerned about where the system is going in the next few years.

We annually do a survey to find out whether the patients, the taxpayers and the consumers of the service are happy, and this past fall we did a survey. We believe it was a true, properly done survey, and 90 per cent of the respondents, of the people of Ontario, said they are either really satisfied with our hospitals or they are somewhat satisfied.

We believe that the people of Ontario want us to keep our capital stock, our buildings and our equipment up to a good level, and we are worried about what we are going to do over the next decade.

In the major body of the brief, as we turn to it, we first address the question of the funding for the current year that will end in another few weeks.

We address the question of deficits. I cannot tell you exactly how many of our hospitals have deficits, but certainly the results at the end of the second quarter showed that 80 of our hospitals were projecting a deficit. We do not know the magnitude at this moment, but we do know that it is something between \$30 million and \$60 million. As a result, we met with the Treasurer (Mr. R. F. Nixon) last week and asked him to address those deficits for this year.

We can explain fully why the deficits are there. We do not apologize for them because we believe that they were predictable. A year ago, the Treasurer said the funds that would be allowed on the global budget increase this year would be 4.4 per cent, and we pointed out that inflation, we knew a year ago, was going to be 5.1 per cent. We were correct. There was a shortfall in inflation.

We have had some unfortunate problems with some new drugs. They are very wonderful new drugs, but they have added to the cost of inflation during the year.



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We are undergoing some operational reviews at this moment. The Minister of Health (Mrs. Caplan) has said, and we quite agree with this, that we are facing as a province this question of recurring deficits in hospitals. The minister would like to know why, and 23 hospitals have been designated to have an operational review. Those 23 hospitals were hospitals which had their deficits addressed a year ago and at the end of the second quarter were projecting a deficit again for this year.

Mrs. Caplan has said she wants to get at the root causes of deficits and she wants a study. This is being done by professional consulting firms, outside firms, which are doing a broad study of why these occur. We believe we know some of the answers. It is increased population, increased growth, increased use, increased many, many things. We are pleased that this study is being done because we welcome the look at the reimbursement, but the dilemma that our hospitals face as we come to the end of this fiscal year is that there are deficits there and if the Treasurer does not address them, there will be hospitals going into the next year with deficits.

When we turn to the 1988-89 funding, we again talk about the possibility of deficits which will come if the Treasurer moves ahead with the 4.4 per cent he has said he will be allotting as an increase to hospitals for next year. The province, in its economic studies, I believe, is using the 4.7 per cent expectation of inflation. We contend that hospital inflation is higher than that, and there are several factors that impact upon us. I need not go into all the things that cause the inflation, but we believe there is too low an inflationary component in what the Treasurer has suggested for the coming year.

We also believe there is not quite an adequate amount set aside for growth. We have had a formula which is increased for one per cent of growth in the system each year, and this year, I think, it is 0.8 per cent they have allowed for, which is a little bit less. For life support, we have a little bit less than was allowed for last year.

We have some forced costs. The federal government taxation is being changed so that we must remit tax deductions from employees every two weeks. I think the estimate found that it is going to cost across the system, by taking the float out so we will not have interest, some \$13 million.

We have some drug costs we think are going to hit us again. Without getting into too much detail, we have a wonderful new, what we call contrast medium. It is a substance injected into the blood vessels so that better pictures can be taken. The medium we had been using for several years was a good medium, but it did have reactions and there were reports that in extreme cases there were even deaths. Suddenly, we had a new medium available to us a couple years ago, but this product comes from Europe. We have not been able to find an alternative source of supply and it is costing us about 10 times more than the previous substance.

Again, I do not know the details, but we have a wonderful new drug that has been announced lately. I think it is called a tissue plasminogen activator. This wonderful new drug certainly is on the market, and it looks like it will reduce some of the damage in some of the instances of heart attacks. It is going to have to be carefully, properly and clinically administered, but the treatment per drug is \$2,900, and we are faced with that type of increase that we see coming at us right in this coming year.





The association is pleased with all that society is doing to improve occupational health and safety. There is not any new measure we do not approve of, but in order to retrofit some of our facilities and in order to provide the capital equipment in order to undertake those measures to make the occupational work safer in our hospitals, we are going to face increased costs in this year.

There is no question we are going to face some new costs due to acquired immune deficiency syndrome. AIDS is increasing. I do not have all the facts and figures. I think we have all been reading in the press how it is increasing, but there are more active patients with AIDS and more human immunodeficiency virus positive patients in the system.

Studying what is best for our hospitals, and by this I mean how we give the best patient care to AIDS, how we look out for our health care workers, how we protect the other patients in the hospital, it has become evident that we should be using what are called universal precautions. These are being recognized. Broadly stated, we might say we should act as though every patient is potentially a person with AIDS, and when we are requiring health care workers to handle blood, blood products and body fluids, they should act and protect themselves just as though they were dealing with an AIDS patient. This is going to be very expensive.

As an aside, I was in Washington two weeks ago and I was talking to the president of the University Hospital in New Mexico. He told me that their cost for rubber gloves last year was \$181,000 more than it had been the previous year. This is the type of thing we are looking at.

The other question, of course, that is coming at us is pay equity. We are looking at the implementation. We want not only to obey the law on pay equity, we want to set an example in our hospitals. We believe we have been very good employers. We are going to implement all of the stages of pay equity, and by 1990 it will cost money. I cannot give you figures, other than it is going to cost at least one per cent more for two or three or four years beginning in 1990. But there will be costs beginning now. We are doing active studies and active work towards the implementation of pay equity.

When I move into the capital, I do not think perhaps I should spend much time on it other than to say that, working with the Ministry of Health carefully over the last few years, the people in the system are agreed that probably to keep the hospital system at the level the people of this province would like, we should spend some \$5 billion over the next decade. We are in the midst of a program that is spending about \$850 million, but it is not adequate to address the capital. We have asked the Treasurer if he would go so far as to expose to us what his plans are for the second phase. In 1986, he said he would spend the \$850 million, and in later announcements, on phase 2. We have asked the Treasurer for that.

I have rather hurried through the system. It is a big system. It spends a lot of our public dollars, we believe very responsibly. They are spent very well on behalf of the patients and the province. I have tried to hurry through that large amount, but we are ready to answer any questions if you have any.

Mr. Mackenzie: Like most of the briefs, you outline the problems you have, what you would like to see from the government and the problems of funding. I do not really think they are that new. I think there has been a fair amount of discussion in public in the last little while.





You make no recommendations. I do not want to be unfair in this question, but you make no recommendations on what you see this committee recommending in the way of prebudget recommendations or even tax reform, which is part of the mandate of the committee. Do you have any suggestions at all as to how we should be funding some of these costs, or are you talking just in terms of a redistribution of moneys?

Mr. Cunningham: No. I am prepared to speak to that. I do not come here as a supplicant begging for money for a system. We made a deal here in Canada in the 1950s that the hospitals would do their part to provide the patient care, and the governments collectively across this country agreed, federally and provincially, that the nature of the system would be that it would be funded by the governments of this country. Now, I am simply asking for adequate funding.

I think what we are saying in our brief is that we have been underfunded for inflation. We have no mechanism to turn off the demand. I believe earnestly that our hospitals are doing their part in every way they can, in cost control and in management. We are willing to stand up to the exercise we are going through right now to have our 23 hospitals reviewed.

We welcome any suggestions of how we might better manage the system. We broadly support this question of better health prevention, better health promotion. Mr. Podborski's committee, which recommended that one per cent of the health budget should be spent on promotion--we are all in favour of promoting health care, preventing illness, preventing injury. But in the meantime, until we as a society can find ways to do that, what I am here to do today is really to declare that our operating costs are higher than we are being funded. One of the things it is doing is taking the capital out. I guess my plea is for more adequate funding than we have had in the last two or three years.

I am really saying that the Treasurer's announcement of 4.4 per cent will not be adequate and we will have deficits next year unless we close the door on some of our services. We will not do that, or cannot do it, until we are told to do it.

Mr. Mackenzie: I have no difficulty with what you are saying and I understand it completely. I might even agree with you, but then I am getting into a straight political arena. We have started to ask, in this committee, some of the other groups that come before us, "Do you have any specific suggestions?" Regardless of the fairness, whether we have lost track of our priorities, the facts are that a fair amount of money is going to have to be spent on services that are needed in this country. I guess the political job is to sort out the priorities, but it is pretty apparent to me that we are also going to have to look for more money.

I am looking now at the broader picture, when you look at all of the services that are there. We have had briefs also--I may not agree with them--that have suggested everything, or implied maybe we need tolls on our highways or additional taxes on gasoline. I am just wondering if you have any specific suggestions. We have even had others who have gone so far as to recommend a fairer tax system or more tax on the base of ability to pay, but we also find people who are not too happy about that.



Mr. Cunningham: If I can try to tackle this, if I look at the world problem, most governments, most societies today, in practically every country in the world, recognize that there is some social right to health care. It has been an identical thing that the costs have been going up. Looking at the problems that other countries expressed, they all expressed the questions: "How will we care for the elderly? How will we give better psychiatric care? How will we rationalize the system? How are we going to meet the costs? How do we have quality control?"

The one thing we have in Canada, which is the most wonderful thing, is the access. We have solved the access question. The United States still has 20 per cent of its people who really do not have access because either they are not poor enough that they get welfare or they have a middle-class income. They are afraid to go into the system, where they may lose their life savings. We have solved that question of access. Unfortunately, it is an expensive system and, as an association, we do not believe the government has been adequately funding it. Curiously, we are within about one per cent. If we had had about one per cent more in this past year, we could have met the demand.

Mr. Mackenzie: I have no difficulty, once again, with exactly what you are saying, but it is almost an identical argument to those from many of the groups that have been before us. I am just saying there is a broader question. It may be that it can be done in terms of re-ordering our priorities, but to be brutally frank with you, I suspect it is going to take a look also at additional revenue raising. That is exactly why I am asking if you have any specific recommendations in that area or even any thoughts in that area.

Mr. Cunningham: I have to become defensive for the system. In all honesty, we have tackled every method of cost control that we can. We have to be as brutally frank with you and say we believe the social contract is that we will be funded. We believe we are declaring our true costs, and society must look at whether we will be funded to the level the patient needs or not.

Mr. Mackenzie: I could list out my suggested changes, but that is not what we are here for. We are to see if others have better ideas or other ideas.

Mr. Chairman: One of the reasons for Mr. Mackenzie's question, and it is a common one we are asking all witnesses, is this morning, for instance, we had the Ontario Road Builders' Association here. They told us that in 17 years their proportion of the budget had slipped from 13 per cent to five per cent. In the last 10 years, health care has gone up from 27 per cent to 32 per cent. So we are looking for ways of, as I say, getting out of the vise.

Mr. Ferraro: Thank you, gentlemen, for the presentation. The question I have is a minor one. I am curious how the OHA can operate with 46 members on the board of directors. Has it always been that large? We have a hell of a time in here with nine members. I am trying to figure out how you guys do it with 46.

Mr. Cunningham: I appreciate the question, because it is a very large system. We are spending multibillions of dollars and we have to do it responsibly. First of all, we have a qualification for our membership board. The board is restricted to either chief executive officers or trustees. We have a voluntary system operated by unpaid voluntary boards of trustees. The board of OHA of 46 is slightly weighted so there will be a few more trustees





than chief executive officers. They are elected for a two-year period each. We do require a lot of them but we have only about four full board meetings during the year.

Because we are an association, we work in a partnership where we have a competent staff, which is very capable, to advise and assist hospitals. That staff meets constantly in committees with people from the field who come in. We consult within our own centre and our own building at the committee level and pass recommendations up to the board. That policy-making board sits only four times a year, but it is supplemented by an executive committee of 14 members who meet quite regularly.

Mr. Ferraro: The second question I have is derivative of, if not identical to some degree, to Mr. Mackenzie's and really is the only question of substance. I was intrigued by your response. At this juncture, has the OHA been invited, or do you intend, as an association to make a presentation to the task force on health care that was set up recently by the Premier (Mr. Peterson)?

Mr. Cunningham: I have had some contact with the Premier's task force, only through its paid full-time executive director. We are delighted to see that strategy committee set up, but it is a long-term committee that I hope will produce something worth while.

There have been three very good studies done recently, one under Dr. John Evans, who is certainly one of the leading health professionals in this province. They looked at how the system might be improved and made some suggestions and that led to the Premier's Council on Health Strategy.

There was the one I referred to earlier under Steve Podborski that looked broadly at those questions of health promotion and health protection. I think we have to deal with that question and be more effective at it.

Then there was a third task force that was set up under Dr. Spasoff in Ottawa, very specifically looking at what the goals of the Ministry of Health should be.

The Premier's council is to pull all of those ideas together. Maureen Quigley is the executive director of that. I met with her, and I have offered her our services. By services, I mean our ability to have hospital people put forth ideas. We will offer our services to that committee, although we are not part of it.

Mr. Ferraro: Did I understand you correctly, sir, that the preoccupation with your association at this time, if not all of the main interaction with the government and the bureaucrats, if you will, is to try to put a finger in the dike and catch up with the \$56 million in operating funds that you need and the roughly \$5 billion that you need for capital cost allocations over the next 10 years and, indeed, you are tired of having deficits, which the government covers, at least the interest portions thereof, but you want to get rid of the deficits as well? Is that basically what your association is doing now?

Mr. Cunningham: Our association really does two things. We are the advocate for hospitals, speaking as a voice, but we are a very large service organization. We buy \$100 million worth of goods together because we can save money. We do joint purchasing. We do consulting in pharmacy, we do labour work





and we do a whole number of service activities for our member hospitals, but in our role as advocates, our dilemma is to try to explain, as I am doing today, why we have deficits.

Mr. Ferraro: I do not have to tell you gentlemen, and it has been reiterated by the chairman and my colleague Mr. Mackenzie already, it is strange that we have a budgetary stamp on it. Just to expand a little bit, education people were in yesterday and wanted \$2.7 billion. Highway people were in as well. I suspect there is not enough money.

I guess I would put the question to you, sir. I am wondering if the Ontario Hospital Association is doing enough, quite frankly. I am not arguing that you have that mandate; indeed you do. I have deficits in my own community in my own hospitals. No one is going to disagree with you that we have the best possible care in the world, in my view, and all the other good things rolled in together. But as a member of this Legislature, I have to accept the fact, as much as I hate to, and say that when our hospital costs are going up 12 to 14 per cent a year and they are in excess almost of one third of the entire budget of the province, something has to give.

I guess that leaves you with a question. Why is the OHA not doing more, notwithstanding the original mandate? I suspect, quite frankly, it should be a concern of yours. You cannot just have tunnel vision, in my view, and say: "Look, we need more money. That's it. Give us the money." Or can you?

Mr. Cunningham: I am delighted to try to tackle that. It has a few parts to it, but the first part is that I am not the least bit apologetic for the service we give. I believe it is at the standard it should be. I believe we are responding just perfectly to the requirements of the patient.

If we go back to what is the social contract here, it is my firm belief that the people of Canada have declared that. They will pay for hospital service, but if they want less service, it is you gentlemen in the Legislature that have to decide it. Somehow it has to be a political decision, or if we are going to find other sources of revenue within the system, such as user fees, that has to be a political decision. If you want us to shut down or close down or draw back, we will do it. We just do not know.

When you hear stories that we are not overstaffed, they are true. I wish we could put more nurses at the bedside. I think we have excellent staffing in that we are balancing our resource with the minimal use of staff. I think we have gone through every management program of energy conservation and we have looked in every corner as to how to cut costs. We will do it if we can find other ways, but we think we have gone as far as we can.

Mr. Ferraro: This is my last question and I appreciate the response. What about in municipalities where there are multiple facilities, if you will? Let us take my municipality. There are two hospitals and a psychiatric hospital. Quite frankly--and I do not think it is unique to my community--everybody runs his own show. Is that an integral part? It is necessary, I suspect, that each have its own laboratory and, to some degree, its own laundry and all of the rest of it, but has that ever been explored on a provincial basis, the costs and acquisitions?



Mr. Cunningham: That is a very fair question because if we look at the map of Ontario we see the little blue sign in each community where there is a hospital and, certainly, if you and I were to start today we would not put the hospitals exactly where they are. But the population is unevenly distributed and, historically, communities got hospitals because they had the energy to go out and build them. I am sure that when most of the hospitals in this province were built, they were not built with the intent that they would come and ask the government for the money to operate them. They were built way before those days. They were built as a community endeavour to add health facilities.

It is true that there are companion hospitals in your community, in Guelph, Sault Ste. Marie, Peterborough and Sarnia, and there have been very close looks at how those should be organized and rationalized. In the last two decades, there has been a lot of progress made in making sure there is not duplication in the system. I certainly would not say to you today that there is no duplication left, but if we look at a community like North Bay, North Bay grew up with two excellent hospitals. One of them is getting older and the other is starting to look a little older as well. They have come forward to the province with a plan to build one hospital. That is an enormously expensive undertaking and probably in the next 50 years it will save a lot of money, but in the two decades it will take to bring those two together and build, there will be no immediate saving.

That is not the Ontario Hospital Association's function to plan. It is the provincial government's responsibility and I give them fair marks for what they have done. Having inherited a system, they have tried to blend, and I think the hospitals are generally co-operative. I know some of the frictions in your community were unfortunate and I hope they have been resolved, but I say that is not the standard across the province.

Mr. Chairman: Before I recognize the next questioner, I just want to clarify something. You are talking about a financial inflation increase of 1.4 per cent and government-approved funding of 4.4 per cent. Where does the Treasurer's statement in November--I do not have it in front of me--in which I think he spoke of resources for hospitals, whatever that meant, 6.9 per cent--fit into those figures?

Mr. Cunningham: It is very fair that you ask that. It is difficult to be sure that we explain what is happening here. Each hospital is allocated a global budget. If that budget is, say, \$50 million for the current year, then the Treasurer announces what it will get is a global inflationary increase for next year, and that is the 4.4 per cent.

In addition to that, there is other money in the system. Part of it is for the increased growth in activity and part of it for the life-support funds which are funded ex-globally, but part of it is for new programs, which can include a new wing or a new hospital, and that brings the total up to the 6.9 per cent.

If you take last year's total allocation to hospitals and put in all of the new programs, all of the things that are happening, that is where the 6.9 per cent came from.

Sometimes that reflects adversely in the community. There are communities where people feel the hospital worker is pretty well paid and the hospital is not doing badly and they read in the press that hospitals have a 6.9 per cent increase where inflation is 4.7 per cent. But that does not take





in the growth of the population of Ontario or the new facilities being brought in. The 4.4 per cent is the local hospital inflationary component increase and the 6.9 per cent is the total.

Mr. McLean: What part of the budget of \$11 billion would be for hospitals?

Mr. Cunningham: A little over \$5 billion.

Mr. McLean: I do not see any recommendations in here about how you are going to cut costs or save money on hospitals. There are a lot of public care units in hospitals and there are a lot of people with Alzheimer's on certain floors in the hospitals. Why would they not be better in a nursing home or in the care of another facility that would be much more reasonable?

I do not see anything in any recommendations whereby we are saying we want to free up these rooms that they can be used for elective surgery for people that are in need of operations. We have hospitals where one floor will be used up with people that could be better served in other areas.

Mr. Cunningham: I think, sir, I would accept what you say and say that it is a shortcoming in our presentation. I can explain why.

If we were to do a survey of our hospitals today, there is a certain per cent that is almost there next year, and was there a few years ago, of people in the beds which are less than appropriate. We have people in acute care treatment beds who are in a very unfortunate situation--often they are older--who went into that acute care bed because of an active need. They had to be treated. Because they are not quite able to go home and because they are not quite able to find another bed, because there are no alternative facilities, they are in an acute care bed, and our hospitals are not looking after them as well as they could. They are not getting the daily activity programs which would restore them to health, they are not getting the rehabilitation and the truth is they go downhill.

We do not want that. It is a dilemma that we have to deal with. All of our hospitals are trying to give each patient the best appropriate care, but we often have the patient in the wrong bed.

A part of the answer is to have more support facilities in the community and that is sometimes a little bit hard to define. A part of it is to have more chronic beds, but it would appear that no matter how many chronic beds are built, they will be filled. It is a bigger dilemma.

I guess we came today to point out the problems that the hospitals are facing without dealing with what some of those alternatives would be.

Mr. Ferraro: You want a solution.

Mr. Cunningham: Yes. You are right, sir. If we had alternative sources, we would be glad to give up some of our financial dilemma and some of our funding, if those alternative sources were there to move our patients out.

Mr. McLean: Would you surmise that this will be one of the recommendations that will be coming with the Premier's committee that is looking into health care in the province?





Mr. Cunningham: I would not say they are going to have any magic answer, but they certainly have to look at that problem as part of our health care strategy. I do not know what figures to use, but the one I like to use as a rule of thumb is that all of us, after we reach 75 years of age, use about five times as many health services as when we were younger.

We must not trick ourselves into thinking that five times as many people need chronic care beds. A lot of them need acute care, but they need more treatment and more support. We are a big player, but we are only one player in that system. I hope the Premier's Council on Health Strategy can help us to define how we might solve in Ontario a part of the question you have addressed.

Mr. McLean: Pay equity is one per cent, and you are indicating that you will probably have less of a deficit next year than you have now. With one per cent added on to pay equity, how are you going to have less debt if you are only going to get 4.4 per cent from Treasury?

Mr. Cunningham: This speaks to the current year which we are just ending and the year that is coming in. Then it goes a bit beyond that to try to project some of the things coming.

The implementation of pay equity does not come until 1990. We are suggesting in here that at least in 1990 and some of the years after, according to the law, we will need that one per cent. Our honest look says that likely there are inequities in the system that must be addressed, and we will need that one per cent beginning in 1990.

Mr. McLean: What portion of the \$850 million that was allotted over several years for extra capital in hospitals would be used by now?

Mr. Cunningham: I do not know. I wonder if any of our staff knows where we stand in that \$850 million. I see some headshakes. No, I cannot answer that because they start at different times and stop at different times.

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Mr. McLean: The other question I have is with regard to occupational health and safety, the impact on the cost analysis. What do you estimate that impact is going to cost you?

Mr. Cunningham: I will turn to Mr. Rudy. Mr. Rudy is vice-president of our organization. He directly serves hospitals. He will have a better handle on that.

Mr. Rudy: We have not been able to come up with a firm estimate yet, I guess probably because the wording of the regulations is not yet firm. We can see tremendous impacts, but in fact it is going to be fairly extensive to go through and try to calculate the cost impacts. We think that should be done. We think probably that needs to be done before they are implemented, because the government needs to understand what the impact is going to be. But until the Ministry of Labour is firm with the wording of the regulations, it would be kind of a fruitless exercise.

Mr. McLean: My last question is, due to the fact that you spend about \$5 billion through the OHA, would you have thought it appropriate if someone from the OHA had been on the Premier's Council on Health Strategy?

Mr. Cunningham: No, sir. We do not mind not being on the council as



such, but I might tell you how delighted I am that there are two people on it who have been very active in the Ontario Hospital Association. Robert Hiscock, to me, is an outstanding man. He was an executive with Ford for several years. Mr. Hiscock grew up in Windsor, but he has spent a lot of his life with Ford, working in Oakville. He gave great leadership, because he was the chairman of the board of the Oakville-Trafalgar Memorial Hospital.

He eventually terminated his career with Ford at a reasonably young age, and he thought he would relax and move to Lake Simcoe. The York County Hospital in Newmarket got him on its board, and we attracted him to the board of the Ontario Hospital Association. He was an outstanding chairman.

He is a hard worker to see that we are good employers. He chairs our human resources committee, which helps across the province in labour relations. He understands all the hospital operations. He is one of the citizens appointed. We are delighted to see that. So he is a trustee who is on the Premier's council.

John Carter is the president and chief executive officer of Greater Niagara General Hospital. Again, he is a man with an outstanding career. He happens to be president of the Canadian Council of Blue Cross Plans, a voluntary, unpaid position at the present time, in addition to his hospital work. He serves on the Canadian Council on Hospital Accreditation. He did part of his career in private enterprise. He worked for Extendicare at one time. He is a hospital chief executive officer.

We are delighted those two people are there. They are on the board of OHA, so we have a contact. But they are not appointments of OHA; they are the Premier's appointments, not ours.

Mr. McLean: That is an excellent answer. A supplementary to that: Do you think it would have been appropriate for any nurses to have been on that?

Mr. Cunningham: There is a nurse who is very well qualified, Mrs. Ross. She is at the present time the president of the Registered Nurses Association of Ontario, a very competent nurse from Sunnybrook Medical Centre, and I regard her very highly.

Mr. Morin-Strom: I thank our participants today. It is especially nice to see Dr. Cunningham, who is from the Sault. I guess about 20 years ago, he used to be my own eye doctor back in Sault Ste. Marie. I do not think we have run into each other down here in Toronto yet during the past several years.

Mr. Cunningham: That is right.

Mr. Morin-Strom: A special welcome to you, sir. At that point I was just getting to the point of starting to wear glasses, as I recall, back in high school.

We certainly have a very serious issue when it comes to the cost side of health care. The perception among legislators, certainly myself, is that the cost of hospitals is one of the major components--one might say one of the major problems--with the tremendous escalation of health care costs, well above the inflation rate, as part of the provincial budget over the last decade at least, if not several decades.

I wonder if you could tell us whether the hospital costs have been





escalating out of pace with other areas of health care costs. What areas of health care costs have been the ones that one may say have been out of control and really providing such an escalation as a percentage of provincial budget and actually escalation in terms of real dollars as well?

Mr. Cunningham: Because it is Dr. Morin-Strom asking the question, I would like to answer it, but as I cannot, I will turn to Mr. Rudy.

Mr. Rudy: There are a couple of points I can make in an attempt to answer that question.

First, if we look at health care costs in Canada as a proportion of gross national product as compared to the United States, we are quite a bit under the US. I think the US is well over 10 per cent now and we are just a little in excess of eight per cent; maybe approaching nine, but we are still under nine. There is quite a difference there, and this is our system in Canada where we have full accessibility and a universal health care system. That, I think, is a significant point.

If you look at the hospital system itself, it is made up of labour. Labour is probably 75 per cent of a hospital's costs. We believe the labour component has not gotten out of control. In fact, the Ontario Hospital Association bargains centrally in Ontario for all the major unions and we believe that has been a very instrumental mechanism for keeping labour costs well under control. I think the record speaks for itself.

You would be interested to know that a recent nursing contract settlement, a three-year contract, has been settled at four per cent for two years. I have forgotten what the figure is for the third year, but we settled for four, whereas inflation is estimated probably at 4.5 per cent or 4.7 per cent. I guess the Treasurer estimated it at 4.7 per cent. I believe that was a very effective settlement, so it has not been in the labour component as such.

I think if you look at supplies, that is quite a different picture. It is in the area of supplies where we are subjected to a number of different forces; first of all, the high cost of technology and new technology. We explained a couple of examples here where a new product has come on the market at 10 times the cost of the old one, or there is a new product that has not been on the market before and there is a new cost associated with it. I think the cost of supplies and drugs has been a fairly significant area.

Another area of uncontrollable cost has to be in the area of utilization and demand. In a sense, that does not mean there are more people coming to the hospital, although that could well be the case. As we lower our length of stay, and that has happened, it means we can put more patients through, but it also means the cost per patient is probably going up a bit.

It is a peculiar economic fact in the hospital system. We can become more efficient and turn more patients through, but the ones we are left dealing with are really the sicker patients. Therefore, they are more expensive, if you like. The high-cost component of a patient's care is being dealt with and we are dealing with more of those patients. Acuity has been a factor; the patients have been sicker.

Ironically, we could postulate that if we could remove all the long-term care patients, let us say the patients who should not be in the hospital but in a chronic care unit, they are actually the low-cost patients. If we had those beds freed up, they would be filled with patients who, in fact, would be





much sicker and therefore it would be more costly. It is a peculiar irony, if you like, of our system.

I would guess the uncontrollable factors are really the kinds of patients we are getting in the hospital. They are demanding a higher cost of care and the higher cost of technology in trying to cope with the ability to provide care.

I have rambled on your answer a lot. Did I come to any specific points you were interested in?

Mr. McLean: You are saying that when people come to the hospital, if those beds were empty, they would be filled with people who were more sick. Where are those people going to come from?

Mr. Harris: A waiting list.

Mr. McLean: A waiting list?

Mr. Rudy: Yes, I make that generalization. In some communities, let us say around the Metro area, there is a high demand because the population is growing very rapidly. It is possible that in some smaller communities where the population is fairly stable, you might not have all of those beds filled but you would probably have some of them filled.

Mr. Chairman: We had an instance in my community recently--well, not that recent--where a man was told he could go home and went to take a shower. When he came back, there was someone else in his bed.

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Mr. Morin-Strom: Let us look at some of these elements. Do you have data or graphs on, let us say, the number of beds in the province and where that has gone over recent years?

Mr. Rudy: We would have information on it, yes. We do not have it with us today.

Mr. Morin-Strom: Is that a major factor?

Mr. Rudy: There have certainly been more chronic beds added to the system over the last few years. You will find several new institutions, but they have been in the areas where, again, there has been high growth. That has been primarily in the Metro area, if you look at Mississauga as one example. There has been a new hospital in Metro in the last couple of years. So there has been a gradual increase, but it is not a dramatic increase.

Mr. Morin-Strom: About what percentage of the total Ministry of Health budget is accounted for by the revenues going to hospitals?

Mr. Rudy: We know what the number is for hospitals. It is about \$5 billion, and the ministry's budget altogether is about \$10 billion or \$11 billion. The total provincial budget is what--\$33 billion?

Mr. Chairman: It is \$34.8 billion, I think.

Mr. Rudy: So we are about a third of the province's budget.



Mr. Morin-Strom: But the hospital costs are about half of the health care budget, you are saying.

Mr. Rudy: Yes.

Mr. Morin-Strom: My understanding is the other big component is the cost of doctors.

Mr. Rudy: Yes.

Mr. Morin-Strom: The amount going to doctors directly is not included in your figures, I understand.

Mr. Rudy: No, it is not.

Mr. Morin-Strom: What would that be? Is that in fact the biggest part of the remainder?

Mr. Rudy: I think it probably is now. The Ontario health insurance plan budget is about \$3 billion, I think, which covers payments to doctors.

Mr. Morin-Strom: That is primarily payments to doctors?

Mr. Rudy: Yes.

Mr. Morin-Strom: Has there been a change in the distribution of those two? Has one escalated far faster than the other?

Mr. Rudy: I think when we looked at this last we probably found that the OHIP budget has perhaps grown slightly faster than the hospital budget. In fact, as a percentage, the hospital budget may have come down slightly and the OHIP budget may have gone up slightly.

Mr. Morin-Strom: Finally, in terms of some of the specific things within your budget that you talked about as being a problem--actually, before I ask this last question, I should say I do not see this as a problem that we can address very easily, because there is, as you say, an absolute commitment from the people and from the government that health care costs are going to be fully funded, that we are going to have a universal system of health care accessible to everyone, providing the best possible reasonable--however we define that--treatment that we can in our system. You are not a private industry deciding how much you are going to give us and how many highways you are going to build or whatever. There is an obligation to provide the health care, and whatever the costs are, they are going to have to be paid somehow out of the public purse.

There are two specific areas I would like to ask about which involve the private sector. According to you, at least one of them is becoming a very big portion of costs. You mentioned the area of supplies and drugs becoming a big part of the cost. We have had a recent confrontation, in fact, in the Legislature this past week, as a result of one of the government individuals--I cannot recall his position--who resigned his position as a result of what he says are exorbitant costs of pharmaceuticals and pharmaceuticals that are being prescribed that should not be and excess usage of drugs in the system.

What is your perspective on the control of the cost of drugs in the province today?





Mr. Rudy: There are a couple of points I would mention. First of all, in the hospital system itself I believe there are fairly good controls on the use and dispensing of drugs. We mentioned a purchasing program, and in fact our purchasing program for the hospital system incorporates the purchase of pharmaceutical products. We have tended to buy, and we believe we have gotten the best prices possible, through this shared purchasing program. That is one point.

The second point is that in the hospital system itself, I think it is safe to say, the majority of hospitals today use what we call a formulary system; that is, the medical staff agrees there will be a prescribed listing of drugs to be used in the hospital system itself. If anybody wanted to bring in a drug that was not specified in that formulary system, it would have to be evaluated and a case made to have it incorporated.

There is control in that way. In the past, hospitals have relied a lot on generic products and so have made use of the cost advantages in purchasing generic drugs. I believe that within the hospital system there is a pretty good control mechanism. There are medical staff committees that look at and monitor the prescription patterns and the uses of the drugs in the hospital.

Where it is more difficult to impose controls is when you look at how drugs are prescribed outside the hospital system. My guess is that the kind of questioning you experienced in the House really dealt more with that kind of prescribing. I believe it is more difficult to impose those controls because physicians prescribe from their offices. They do not use a formulary system outside of the hospital. They are subjected to the prices, first of all, that are negotiated with the government drug plan, but also those for patients using drugs outside the drug plan.

Mr. Morin-Strom: I understood the pharmaceuticals industry had made a commitment to the federal government not to escalate its prices in return for the new generic drug legislation. My understanding is the provincial government, the provincial minister in fact, has challenged them on that fact. Do you have any facts or figures on what has happened?

Mr. Rudy: It is probably early to have numbers and statistics on what has actually happened. That new legislation was just passed, I believe, in the fall of 1987, so it would be early for us to have any kind of assessment of what is actually happening at this stage. But, yes, I am aware of the discussions that went on around certain drug price increases. It is something we want to monitor because I think it is a very important area. We made representation to the federal government at the time that was under discussion and made our position known. It would be in our best interests to monitor that, but I believe it is a little early to come to any conclusions from our point of view at this stage.

Mr. Morin-Strom: In a related area, I have heard expressed from hospitals, particularly in Sault Ste. Marie, special concern about medical laboratories and the fact that hospitals are being restricted from doing laboratory tests in a lot of areas where now the preferred option is to go to private medical labs. The contention, certainly of the hospitals in Sault Ste. Marie, has been that this is a tremendous drain of financial dollars on the system.

In fact, what is happening is the private labs are doing the high-volume, low-cost medical tests, which are undoubtedly very profitable for them, and the hospitals are still being required to do the less frequent, but



much more costly laboratory tests. The hospitals have been losing revenues as a result and the health care system costs are draining out to a private sector source which is making potentially very lucrative profits on something the hospitals have the capability to do the work on. Has this been a concern of the Ontario Hospital Association?

Mr. Rudy: Yes, we have had a number of discussions with the Ministry of Health on this subject. We have had proposals in front of the ministry that say hospital laboratories should have the same rights, if you like, as the private labs, particularly in terms of outpatient laboratory billings.

We believe they could be done, from our perspective, at a much lower rate, albeit laboratories have been funded in terms of their capital component by the Ministry of Health, but we believe that because the equipment and the infrastructure is there, they could be done at a fairly reasonable cost.

Ironically, if you ask how hospitals could cut down on their costs, they could easily cut down on their costs by having all their outpatient work referred to the private labs. That would cut down their costs, but it would not cut down the system's costs. This is an anomaly we have been quite concerned about and have had many discussions about, but we have not had any satisfactory resolution of this issue at this stage of the game.

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Mr. Harris: May I just ask another supplementary? I am told by my hospitals that their biggest concern is that the private sector labs are paid more for the same tests than the hospital labs are.

Mr. Rudy: The private labs bill on a fee-for-service basis; it is called the laboratory medical services unit system, the LMS. The hospitals do not bill on that basis at all.

Mr. Harris: On what basis do you bill?

Mr. Rudy: For inpatients, it is part of the global budget. Even for outpatients, it is really part of the global budget, although there is some recognition for--

Mr. Harris: For the number of tests that you do.

Mr. Rudy: Yes, there is a small recognition for growth, but they do not bill on an individual test basis at all.

Mr. Chairman: Mr. Kozyra and then Mr. Haggerty.

Mr. Kozyra: Is it fair to say that the OHA considers rationalization a good concept and that there are cost savings in that concept?

Mr. Cunningham: The answer to that has always been that the OHA has endorsed any rationalization that can take place.

Mr. Kozyra: Can the gross cost savings be quantified, calculated?

Mr. Cunningham: I do not think so, because there has been an evolution over the last 20 years. In Dr. Morin-Strom's area, the two obstetric units were put together over a period of a few years, and there were certainly some savings, because a better obstetric unit was built in one hospital. In





Mr. Harris's riding they are proposing the merger of the two and it is going to take place over a long period of time. I think it would be hard to get a handle on those savings.

Mr. Harris: In my riding they have spent a lot of time and effort identifying cost savings, but they are all theoretical in that they have not taken place yet.

Mr. Kozyra: Is it also fair to say, and it differs from community to community, that there is a certain degree of resistance to that?

Mr. Cunningham: I think most of that resistance has been gone for some time. I think that probably, if we go back to 1959 when the system became government-operated, a lot of them were in pretty bad shape. Each one had been struggling with its private resources and each one thought, "No, we will go on as a full institution and do what we set out to do to accomplish our mission."

In the last 30 years, as a governmental system has made each hospital more clearly look at its mission and what it should be doing, very often that has been that it should be working with its neighbour hospital down the street and coming to some accord on how it could share lab services. I think there has been a real evolution of rationalization.

Mr. Kozyra: What I am leading up to is that, where the resistance still exists and the cost benefits would be obvious, what would your position be if the government were to offer incentives? Maybe it does; I do not know. The one per cent shortfall you have perhaps as an incentive or the calculated savings as an additional grant, as an incentive for those who are dragging behind this concept, to accelerate the process.

Mr. Cunningham: We would be clearly supportive, even without incentive, if a better, more cost-effective way could be found to deliver patient care. The philosophy of our association would be that that is normal and should be done.

Mr. Rudy: Just a supplementary to that answer. I think when you look at a number of these rationalization projects, and you could identify quite a few of them around the province, you could ask, "What would happen if we would put two hospitals together?" Sometimes, however, there is an upfront investment that needs to occur to make that possible.

You are talking about two institutions of maybe 150 beds or thereabouts each. If you try to run those under one roof or under one organization, or try to put units of service together, you do have to enter into a capital program to make that possible. There is an upfront investment that needs to take place in most of those areas to make them work effectively. Sometimes that is where there has been a stumbling block as well, that investment has not been possible or the government has not seen fit to do it or the capital funds have not been available, or something like that. It is quite amazing what you could do, if you could, without any other problems, find the money to put up front. You could accomplish it fairly quickly. So there is an upfront investment that must be made.

Mr. Kozyra: That upfront money would be the incentive.

Mr. Rudy: Yes, that could be another incentive.



Mr. Haggerty: I want to followup on some questions raising the matter of laboratory testing done in the hospitals. Has your group done any studies in the area of the impact that free trade may have upon the services here in Ontario and throughout Canada, particularly on hospital services? It has been indicated by previous witnesses that this is part of the free trade deal, health care services that include hospitals.

Mr. Cunningham: No, we have not been able to get a clear analysis of it. We have been very interested because we hear the same thing, that it may affect us in some way, but we have no thought-out position or analysis that would be helpful. Part of the charge is that the system is subsidized by government and, therefore, it might be brought on the table.

Their system is subsidized by government too. There is \$80 billion in medicare, and some hospitals get as much as 80 per cent of their revenue in medicare. I do not think that will really hold water at any place down the road.

Mr. Haggerty: I am talking about services from the United States that could come in and take over services that are now provided in our existing health care system.

Mr. Chairman: Conceivably asking for government help in a national treatment sense?

Mr. Cunningham: One component of that, of course, is that in the US you do see treatment centres of various kinds, clinics of various kinds.

Mr. Haggerty: Chronic care is one.

Mr. Cunningham: Yes. Certainly, the government of Ontario has the power to regulate and set up regulations. I do not think we can be invaded from the US, that anybody can come in and flout our regulatory process. I do not think we are going to see private enterprise suddenly move in.

Some of the American consulting firms have opened offices in Canada. The Hospital Corp. of America has opened an office here and is looking for business. It has got some business, but it has not opened facilities. I do not think our regulated system at this moment is open to a sudden appearance of unregulated facilities.

Mr. Haggerty: In free trade too, there has been some discussions in the area of employment. Changes will have to be made in the immigration laws when people from the US want to enter into Canada for a place of employment. They are well aware of the shortage of health care services in nursing staff in the hospitals throughout the United States. Probably in free trade we could see a drain again of all our talent heading south.

Mr. Harris: That would be normal.

Mr. Chairman: I suppose from a competitive point of view it would be a so-be-it attitude if the government were to permit other entities to come in. You are still trying to provide the best health care possible to whatever your constituency is.





Mr. Rudy: That is right. The additional point I make is that nurses have been able to go south anyhow, and they have over the past number of years in differing volumes. There are firms actively recruiting for nurses now in Ontario.

It would be easy for a nurse to go south and have her professional qualifications recognized to work in the US, so it is happening to a certain degree now.

Mr. Haggerty: Surely that is an event that would have a serious impact upon employment in the hospitals here in Ontario, if everybody took the notion to say: "I can travel down in the states. There is a job waiting for me there." What do you do with all that manpower that has gone and the cost of training, the educational part of that? In the long run, it will probably add to the health care costs.

Mr. Harris: That is what has happened in the last five years. That is one of our basic problems.

Mr. Haggerty: But not in large numbers. You may see a larger flow of movement that way now. They can come and go as they please, in a sense.

Mr. Chairman: We appreciate your presentation. It is a huge chunk of our budgetary concern, obviously. I have two big hospitals I have to deal with, rationalizing projects and so on. It is particularly appreciated that the hospital association exists, works together and presents unified proposals both to us and to the government. Thank you.

Mr. Cunningham: Thank you, sir. I would like to add that we try to send to each MPP short information sheets that we hope are of some value. Our offices are open to members of any party if they should wish to call us for any information that might be helpful. We try to assemble what information we can about the health care system, so we would like to be of service to all MPPs, if we could.

Mr. Chairman: Our next witness is the Ontario Natural Gas Association. The clerk has asked me to take a brief break while he sets up a screen for a slide presentation.

The committee recessed at 3:11 p.m.

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Mr. Chairman: Let us get started again. We have with us the Ontario Natural Gas Association. They have already filed a brief, which you should have copies of, and I believe there are other copies there. That is exhibit 26, which was distributed on the 15th of this month.

Paul Pinnington is the managing director of the association. Mr. Pinnington, perhaps you could take over, introduce those who are with you and carry on.

#### ONTARIO NATURAL GAS ASSOCIATION

Mr. Pinnington: I will just be a second here making sure our slides are set. Possibly I could start with our introduction while we are checking to make sure that the visual pieces are together.



It is a pleasure to be with you this afternoon, Mr. Chairman and members of the committee. My name is Paul Pinnington, and I am the managing director of the Ontario Natural Gas Association. Accompanying me, to my immediate right, is Jim Anderson, who is chairman of our finance and accounting committee. In real life Mr. Anderson is the vice-president and controller of Union Gas Ltd. in Chatham.

To Mr. Anderson's right is Glen Waugh, who is the vice-president and comptroller of Consumers Gas. On my immediate left is David Mitobe, who is vice-president and general manager of Neptune Meters Ltd. Mr. Mitobe is also the chairman of the Ontario Natural Gas Association. To Mr. Mitobe's left is Jeff Hunter, who is the controller of ICG Utilities (Ontario) Ltd.

We are pleased to be with you today and thank you for inviting us to participate in this process. On behalf of the members of the association, we have prepared a brief entitled Policies to Strengthen the Ontario Economy, which has been distributed to members of the committee. Mr. Anderson has prepared an overview of the brief which he will take us through in a few minutes.

With your concurrence, Mr. Chairman, I propose that my colleagues and I respond to any questions at the conclusion of Mr. Anderson's presentation. The brief, Mr. Anderson's comments and copies of the slides he is using have been provided to the clerk. A copy of the material is also in the hands of Hansard. I do have some additional copies for any other interested parties.

I would ask Mr. Anderson to proceed with our overview.

Mr. Anderson: If for some reason I cannot be heard, please let me know.

Thank you for this opportunity to appear before you today. Your committee provides an important forum for the exchange of information and ideas on economic and fiscal matters. As an important Ontario industry, we take seriously our responsibility to provide constructive advice of benefit to the economy. While our written submission and comments today are given from the perspective of the Ontario natural gas industry, we have tried to be as objective as we possibly can.

As you may be aware, the Ontario Natural Gas Association, or ONGA, as we are known, as this slide indicates, is an organization which represents over 300 company and individual members. We represent transmission and distribution companies, natural gas producers, equipment manufacturers and others who serve Ontario's energy needs.

Our written submission indicates that Ontario uses more than one third of all the energy used in Canada. As this slide shows, natural gas provides one third of Ontario's energy needs. Petroleum and electricity are among the other major energy suppliers to Ontario.

The following facts reveal how vital the natural gas industry is to Ontario:

Natural gas provides more than one half of all the energy used in Ontario's homes and commercial buildings.





Natural gas provides almost 40 per cent of the energy used in Ontario industry, where it is used as a feedstock as well as a source of heat, and it makes a significant contribution to the energy needs of agriculture and transportation.

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The industry has close to \$6 billion invested in facilities in Ontario and creates more than 7,400 jobs, the vast majority of which are noncyclical and dispersed geographically around the province. Wages and salaries paid in 1987 totalled \$279 million. Taxes paid amounted to \$170 million.

With this brief introduction, we would now like to highlight the key information and recommendations presented in our submission. I will do so under the following headings: economic performance and outlook, Ontario finances, tax reform, and energy issues and strategies.

Turning first to the economy, Ontario is now into one of the longest periods of economic expansion it has ever experienced. While there continue to be areas of regional disparity, we feel the economy is close to full employment. We concur with the view of the Treasurer (Mr. R. F. Nixon) that, barring a recession in the United States, this expansion will continue through the next two to three years, although at a slower pace. The rate of unemployment in Ontario could remain below six per cent over the next two years and inflation will likely be held to less than five per cent per year. This would mean uninterrupted economic expansion in Ontario, lasting almost a decade, a prospect which offers both opportunities and challenges.

One such challenge is to boost productivity. Our written submission notes the existence of a possible link between energy costs and productivity. Accordingly, we recommend that your committee advise the Treasurer and the Minister of Industry, Trade and Technology (Mr. Kwinter) of the need to find ways to raise productivity and of the importance of low-cost energy supplies to the provincial economy. In our submission, we propose specific energy actions to help underwrite Ontario's continued prosperity.

While continued economic expansion is likely, there is a tangible risk of an economic recession over the medium term. As you know, the Ontario economy thrives on trade. Recent statistics on the performance of the US economy show weakness. International financial markets are unsettled, reflecting concern over trade imbalances, US financial strength and the lack of co-ordination of economic policies among the major trading nations. Therefore, we recommend that provincial taxes should not be increased. Tax increases at this time could tip the province's economic scales to the downside. I will deal further with tax increases in a moment.

As this slide shows, provincial economic output, measured in current dollars, has grown on an average of 10.1 per cent per year since 1982. This strong economic performance has allowed an encouraging improvement in Ontario finances. Budget revenues over this time period have grown faster than the economy, at an average rate of 11.2 per cent per year. Budget expenditures have increased at an average of 8.9 per cent, with the result that the budget deficit, which is defined as net cash requirements, has dropped from a 1982-83 recession level of \$2.5 billion to less than \$1 billion this fiscal year.

ONGA is pleased to see progress being made in strengthening the province's fiscal situation. Ontario is one of only three provinces to have its credit rating upgraded in the past two years. We are concerned, however,



that a recession could quickly wipe out past gains and lead to higher deficits and mounting public debt.

To diminish this possibility, we recommend that, with continued economic expansion forecast, the Ontario budget deficit can and should be reduced to zero over the next two to three years, without increasing taxes. Such action would be prudent and would ensure future flexibility to cope with the unexpected. While accomplishing this would not be easy, we feel it is attainable. For example, approximately a one percentage point differential between the growth in rates and revenues and expenditures could balance the budget in three years. This is just one half of the differential which has been achieved, on average, over the past five years.

Another reason why we believe taxes should not be raised relates to tax reform. Tax reform is under way in Canada. Stage I, the reform of personal and corporate income taxes, began on January 1 of this year. Stage II, the reform of sales taxes, is now in the design stages. We support the fundamental aim of reform, which is a revenue-neutral broadening of the tax base and lower rates. Under reform, personal income taxes are reduced, while corporate income taxes are increased. Provincial tax increases, particularly income taxes, would offset the stimulative economic thrust of tax reform. For the economic advantages of tax reform to be realized, it is vital that the lower rates of income tax promised under reform come into effect as planned and remain in place for a considerable period of time.

Two other aspects of tax reform addressed in our submission are sales taxes and income tax collection mechanisms.

Federal-provincial discussions are under way on the reform of sales taxation, which is stage II of tax reform. We understand that two options are on the table. Both are versions of value added taxation, or VAT. One option is a federal value added tax which would run parallel with provincial retail sales taxes. The other is a federal-provincial value added tax, namely a national system, to replace both the federal manufacturer's sales tax and provincial retail sales tax.

Time does not permit a detailed discussion of the very complex topic of value added taxation and the relative merits of the various options. The Ontario Natural Gas Association is concerned, however, that the structure of a Canadian value added tax could be complex and therefore increase rather than reduce the compliance requirements, the cost for taxpayers and the bureaucracy.

A third option which we recommend be explored is that of a federal-provincial retail sales tax system. This option is explored in our written submission. Most important, however, in this very complex matter, all options must receive wide public discussion, including discussion by your committee.

Recently, the Treasurer indicated that tax reform provides an opportunity to examine federal and provincial tax collection mechanisms for personal and corporate income taxes. We would support any initiative to reduce the tax administration bureaucracy. There is already a substantial duplication of federal and Ontario corporate tax audit and reassessment activities, resulting in higher than necessary costs for business.

One possibility which may be under consideration is for Ontario to enter into a collection agreement with the federal government for corporate income taxes. While such an agreement has worked well for personal income taxes and would certainly reduce the tax administration bureaucracy, the ramifications





of it for corporate taxes should be carefully assessed before proceeding. Our main concern is that such an agreement could potentially impair the province's fiscal flexibility. In any event, the current bureaucratic duplication can and should be corrected.

Let me now turn to energy issues and strategies. I will address them under the following headings: progress in energy deregulation, electricity supply and the role of natural gas, incentives to encourage efficient use of natural gas, and government economic leadership.

The members of the committee will be aware that over the past two and a half years Canadian energy markets have been going through a transition. There have been extensive regulatory hearings, which have consumed considerable industry and government resources. As a result, there is today a much better understanding of the situations and positions of the various participants. The natural gas market has moved towards market-responsive pricing, to the benefit of Ontario consumers of natural gas. In short, progress has been made.

Nevertheless, ONGA has concerns about the future. In the new open market environment, regulatory and other policies applying to the natural gas transmission and local distribution companies in Ontario must reflect competitive realities, as well as be fair to consumers. A growing volume of natural gas sales is being negotiated directly between major industrial gas users and the western producers. The local distribution companies are locked into long-term contracts arranged in previous years in the interest of all Ontario natural gas consumers.

The companies face the problem of making price adjustments for various classes of customers which are equitable yet maintain the companies' competitive positions. Moreover, free trade in energy between Canada and the United States and removal of the mandated surplus test raise important concerns and questions concerning long-term energy supply security for Ontario.

In view of these uncertainties, we recommend that the government examine, with our industry, alternative future gas market supply-demand scenarios and their supply security and price implications with a view to establishing a positive policy and regulatory framework within which the industry can make the long-term commitments necessary to secure natural gas supplies at competitive prices.

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Natural gas could make a greater contribution to Ontario's future energy security by playing a role in the production of electricity, and it can do so in two ways: use of natural gas by Ontario Hydro and use of natural gas in parallel generation and cogeneration.

As the members know, Ontario Hydro has identified the longer-term need for more electricity supply and conservation. New generation capacity and power purchases are ways of increasing supply. Our submission refers to a 1987 study, undertaken for the Ministry of Energy, which suggests that natural gas could play a strategic bridging role while supply options, such as clean-coal technologies, are developed or approval for new generating station sites obtained. The lead time required to gain approval for and build new capacity can be 14 years or even longer.

Ontario Hydro reported a large increase in acid gas emissions in 1987, and over the longer term there is a real danger that emissions will exceed authorized limits. The study I just mentioned refers to United States



experience which shows that use of natural gas to produce electricity could reduce acid rain. Several technical options for use of natural gas by Ontario Hydro are identified in the study and in our submission.

With regard to the second point, some Ontario companies which use natural gas to produce heat and steam for industrial processes also produce electricity as a byproduct, either for their own use or for sale to Ontario Hydro. This is called cogeneration. There is considerable scope for more cogeneration in Ontario, provided Hydro's terms and conditions for purchasing cogenerated power are fair and reasonable.

ONGA will be examining the economics and financing of cogeneration in some depth this year. We anticipate bringing forward recommendations for a policy and regulatory framework to encourage this virtually nonpolluting form of electricity generation. In the meantime, we recommend that serious consideration be given to the potential for using natural gas to produce electricity to bridge the gap while clean-coal technologies and other supply-demand options are developed and to contain acid rain.

While on the subject of technologies, I would like to mention that our submission discusses the need for greater research and development effort in the economy. In this context, we stress that current incentives in place to encourage research, development and demonstration of new products in the natural gas industry and to promote the continued development of natural gases and alternative transportation fuel should be maintained and that new initiatives should be introduced.

With regard to the development of natural gas as a vehicle fuel, known as NGV, ONGA member companies have a five-year plan to convert a substantial and growing number of vehicles, including cars and light- to medium-duty trucks, to NGV. In addition, demonstrations supported by the Ontario and federal governments will lead to the displacement of diesel in urban transit buses and heavy trucks--a positive environmental impact.

The potential exists for a significant NGV industry in Ontario. With government support, Ontario will become a world leader and an exporter of state-of-the-art NGV technology and knowledge. Therefore, we recommend that existing provincial incentives for the market development of natural gas vehicles, which have been substantial, be maintained and additional measures be introduced. We ask for your committee's support in this regard. Federal support for the development of NGV has recently been extended at least three more years. We are looking forward to a similar positive response from the government of Ontario.

Our submission raises one other matter of concern to ONGA, and that is the need for government leadership. Canada is a federal state in which the federal and provincial governments operate more or less as equals. As the committee will appreciate, frictions often arise between governments on important matters of public policy and these frictions can impact in negative ways on the business community.

Relations between Ontario and Alberta have been particularly strained, with serious consequences for the natural gas industry. Therefore, we are recommending the creation of an Alberta-Ontario committee of government and private sector representatives to inquire into the state of relations between the two provinces and to suggest ways to improve relations and economic co-operation.





To sum up, the economic outlook is promising. Although there are downside risks which should not be ignored, Ontario finances are improving and the budget should be balanced over the next two to three years without tax increases. Sales tax reform requires close examination to ensure that any changes made are in the best interests of taxpayers. The Ontario natural gas industry is important to the provincial economy and can, within the appropriate policy, regulatory and incentive framework, make a substantial contribution to security of energy supply, the production of electricity and research and development.

This concludes my remarks. Thank you very much for the opportunity to appear before your committee. Our panel will be pleased to respond to any questions you may have.

Mr. Chairman: Thank you very much. It has been a very interesting and to some extent provocative presentation. We should have a very interesting discussion now.

Mr. Kozyra: What effects do you see the proposed free trade agreement having on your association, specifically as it relates to one of your earlier recommendations on boosting productivity? Are there any effects there? Could you just comment in general on how you see the agreement affecting the association and the Ontario scene?

Mr. Pinnington: With respect to the question of free trade, I believe we are to appear before this committee in several weeks' time to address in some detail the question of free trade. As you will recall, we had an appointment with you a couple of weeks ago. Regrettably, we were unable to make that date, but we will appear when you sit again. I believe we are in the process of making arrangements, if we might defer the details of that until then.

Mr. Kozyra: You talk of bridging the gap with natural gas as it relates to hydro specifically. I am wondering what potential cogeneration has to replace which percentage of hydro. Is it at a higher cost? Is that the reason you talk of bridging the gap rather than total replacement? Perhaps you could explore that a little more fully, because we do have problems with all three basic forms of hydro: water, nuclear energy and coal. If this is such a positive move, I am just wondering what potential it has for what percentage of replacement. Why just bridge the gap instead of replace it totally?

Mr. Anderson: First, as far as cogeneration is concerned, it would be a very small portion of the total electricity that would be produced, but there is significant potential there. It seems to me there are a number of ways in which we can produce electricity in the province perhaps more cheaply than the very large projects that are going on. We should be paying attention to all of those ways we can do it. Taken in total, I think they can be a fairly large portion of the total electricity picture.

In terms of natural gas, and perhaps other members of the panel might want to comment, I do not think we would ever see natural gas becoming the main source of electrically generated power. I do not think, in the long-run interests of the province, we would look to natural gas as being that source. Certainly as a bridge, until we can work out problems associated with acid rain emissions and so forth, I think it would provide a good stopgap that should be looked at and explored.

Mr. Kozyra: Why not long-range? What are the problems with that?



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Mr. Anderson: Supply is one. Obviously, it is a nonrenewable resource and in the long run you are not going to be able to produce electricity ad infinitum without it, or with natural gas.

Mr. Pinnington: I think I would just add to that, not to infer that supplies of natural gas are limited at this point in time. I think the reference my associate was making is to 2000 and beyond and the bridging reference really makes reference to an opportunity now to use gas, for example, in conjunction with coal to reduce acid gas emissions. This would be bridging the gap between now and, say, when scrubbers are installed or when clean coal technologies become more cost-efficient.

Mr. Kozyra: Do you realize how limited some of the supplies are? We were told on the oil side that if Canada were supplying the full US demand, the total Canadian supply of oil would last only nine months.

Mr. Pinnington: It boggles the mind.

Mr. Chairman: And the gas reserves were decreasing too.

Mr. Anderson: Canadian gas reserves are certainly much, much larger than oil reserves. I do not think there are any immediate supply concerns on natural gas, but in the long, long term I do not think you would look at natural gas as being the main fuel to produce electricity.

Mr. Pinnington: Maybe a couple of numbers would be appropriate in that regard. In terms of natural gas supply, we now have in the order of a 30-year supply of natural gas to meet total domestic needs and our commitments to the United States as they stand now. In the case of crude oil, we have approximately an eight-year supply for meeting both the domestic and the foreign commitments as they stand today.

Mr. Ferraro: Not counting the tar sands.

Mr. Pinnington: No. That is correct. That would include the in-place oil sands facilities. There are two. One is Suncor and the second is Syncrude.

Mr. Mackenzie: You have given a partial answer of what are our proven reserves of natural gas. You are saying that at the moment we have a 30-year supply of domestic, including what we are shipping today to the United States.

Mr. Pinnington: That is correct.

Mr. Mackenzie: How much of our supply are we shipping to the United States today?

Mr. Pinnington: In round numbers, about a trillion cubic feet a year to the United States. Our consumption in Canada is just under two trillion cubic feet, I believe.

Mr. Mackenzie: So it is two thirds-one third at the moment. What percentage of the US supply does that one trillion represent?





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Mr. Pinnington: Very small. Total consumption in the United States is just under 18 trillion and in Canada it is under two trillion.

Mr. Mackenzie: So what you are saying there is that in less than two years, if we were supplying the entire US market--I am just using the argument--we would wipe out all of our natural gas reserves?

Mr. Pinnington: If that were the case. Again, I can go back to some data and possibly offer some perspective in that regard and we will adjust this when we get to the free trade question with you. We have said there is a 30-year supply of gas. The general wisdom in the United States is that they have a 10-year supply of gas. If you were to combine the two markets and the two reserve data, the total North American situation would be about 13 years. That is the sort of balance you get.

Mr. Mackenzie: It still would seem to me at least to be a bit of a scary situation to have a 30-year supply on the current three trillion use. That amounts to a very small fraction, one eighteenth, I guess, of what we are supplying to the US.

With the free trade agreement, we do have a continental energy policy now. We are tied into contracts that we signed, based on averaging, and we also have less control over the pricing. Is this not seen in the industry as a bit of a threat to our ability in the future to supply what we need here in Canada?

Mr. Pinnington: We have expressed concern with respect to the question of security of supply. We have not expressed concern regarding price in that government's direction has been to establish price on a free market basis, but we have expressed concern regarding security of supply in the situation where we have a North American market.

Mr. Mackenzie: From the best advice we can get so far on the present agreement, the concern is that we seem to have lost the ability to use cheaper energy prices as an incentive, if we should decide to do that, in this country.

Mr. Pinnington: I expect that is a reality in terms of government policy, yes.

Mr. Chairman: Mr. Haggerty.

Mr. Ferraro: Mr. Haggerty has consented to let me go first because I have to leave.

Thank you for your presentation, gentlemen. I can only say I can hardly wait for your presentation in regard to free trade. Having said that, I want to ask you a generic question first. I know you made mention in your brief about a value added tax. My understanding is that VAT is basically dead, that if there is any progression to be made, we are looking at a national sales tax as opposed to the VAT approach. Are you aware of that?

Mr. Anderson: No, I personally did not know the VAT was dead.

Mr. Ferraro: I am not saying it is dead, but my understanding is that it is essentially dead. The only thing that appears to be going to fly is a national sales tax at this time.





Mr. Anderson: A national sales tax is the option we are recommending be explored, basically because of the administrative aspect of it, so I am happy to hear what you said.

Mr. Ferraro: You made an interesting comment about the budget deficit and that it should be reduced over the next few years. We got a performance and prospects review from the Treasury, which said that in 1989 to 1991, over the period you are talking about essentially, the best-case scenario would be 2.5 per cent real growth and five per cent inflation. When you take that in conjunction with the fact that we have, I suspect, roughly a \$1-billion deficit this year, which is not good, and you do not want to us to increase sales taxes, which I can appreciate, and that we have had in the last four days requests of over \$10 billion from about four sectors, my question to you is, which services would you cut?

Mr. Anderson: That is a very difficult question to answer. Obviously, when you have limited resources, you have to apportion them.

Mr. Ferraro: Excuse me, I did not mention the fact that we are losing \$2 billion in transfer payments from the federal government over the next five years. I am just throwing that in. I am looking for a little assistance here.

Mr. Anderson: When you have limited resources, you obviously have to deploy them as effectively as you can. The point is that the resources are somewhat limited and not unlimited. That is the thing that needs to be taken into account as much as anything else. Ontario's economic picture at the present time is, and certainly over the past four or five years has been, very bright.

Mr. Ferraro: I agree, except that they are telling us for the next three years--and I am sure you already know this in your own industry--that it is going to slow down a little bit, not even in fact keep up with inflation.

Mr. Anderson: It would be difficult to keep up the record of performance that we have had over the last five years, so it is not surprising that we can expect to slow down some. But if we cannot do things about the deficit in these kinds of times, we are never ever going to be able to do anything about it.

Mr. Haggerty: Can I just get a supplementary on that before he gets away? The brief you submitted this afternoon is saying that government should not move in the area of taxing natural gas on vehicles. In other words, we are giving some persons--particularly Consumers Gas and others and all the vehicles now operated with natural gas; some are operated with propane--a free ride on our highways today. We have had the Ontario Road Builders' Association in here saying we should be spending more money on roads, even keeping a good maintenance program and building new roads. The question is, where do you get the money? You are coming in here today and saying: "Do not put a tax on fuel for vehicles. Give them a free ride."

Mr. Anderson: Natural gas as a vehicle fuel is a fledgling industry that is just trying to get off the ground. There are a number of impediments to getting it generally accepted within the community, but there are a lot of benefits in having it accepted in the community. In spite of our earlier concerns about supply, the supplies of natural gas are much greater than the supplies of oil to the country. There is certainly an incentive to get people



on to natural gas, using more natural gas, as opposed to gasoline. There are some advantages to that.

There are tremendous environmental advantages. Natural gas is a clean-burning fuel, much cleaner--

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Mr. Haggerty: No one is arguing against that, but the question--

Mr. Anderson: The point I am making, sir, is that there are a number of advantages. Sure, you might be giving up something on the side of road tax but on the other hand, you are gaining tremendous advantages which are worth what you are giving up on the road tax.

Mr. Haggerty: I suppose everybody wants propane in their vehicles.

Mr. Pinnington: I would be happy to see the act removed under those circumstances.

Mr. Anderson: It is hard to get it out fast enough.

Mr. Haggerty: I just want to raise that point with you. It is like a two-way street.

Mr. Pinnington: I think, Mr. Haggerty, if I might just observe, this is not something we are asking for in addition. This is not going to cost more. We already have an exemption from the road tax. This is not an additional cost to government at this time--only to the extent that a vehicle that might have consumed gasoline would be on natural gas.

Mr. Haggerty: There are quite a few heavy commercial vehicles out there now, not just a half-ton truck or a car, but heavy commercial vehicles that are going this way. You know it and I know it. We see it every day. We are looking at a five-ton, maybe 10-ton, chassis that are converted with that and probably fuel-wise, I suppose, it is not as costly as gasoline, but, again, there is no road tax.

Mr. Chairman: Okay. Back to Mr. Ferraro.

Mr. Ferraro: Just by way of information--and if it is in here, I am sorry. I have not seen it yet--how much of our natural gas would we import in Ontario?

Mr. Pinnington: Very little.

Mr. Anderson:: Import from outside the borders of Ontario? Practically all of it.

Mr. Ferraro: Practically all of it? So we do mainly distribution and refining as well here. Is that right?

Mr. Pinnington: We had better back up a minute. There is some domestic gas produced, but it is a very small amount. Less than one per cent is produced in Ontario. All the rest of the gas we get from Alberta. There is a very small quantity of gas that comes in to Ontario from the United States,

Mr. Anderson: And from Saskatchewan.





Mr. Ferraro: I am sorry. I must have been off in another world. I think Ontario imports roughly \$7 billion of petroleum products. You are telling me that one third of that, roughly, is natural gas; so roughly \$2.3 billion is natural gas alone. Can you tell me what proportion of the amount of natural gas you supply to Ontario residents is residential or domestic as opposed to industrial-commercial? I could not figure it out from this chart. I am sorry.

Mr. Anderson: That chart breaks down between--

Mr. Ferraro: What I am getting at is, commercial at 46 per cent and industrial at 61 per cent. That is "other". So it would be 39 per cent industrial, it would be 54 per cent commercial, and then--

Mr. Pinnington: About 30 per cent of all the gas sold in Ontario is residential.

Mr. Anderson: Page 22 of our written submission acknowledges that.

Mr. Ferraro: So roughly 30 per cent is domestic?

Mr. Anderson: Yes. Well, 30 per cent is residential, of the total gas used in Ontario.

Mr. Ferraro: So 70 per cent is obviously industrial-commercial?

Mr. Anderson: Right.

Mr. Ferraro: I notice with interest that on page 2 and page 4 you you emphasize that productivity should be boosted and the importance of low-cost energy to the Ontario economy. You suggest that twice. I do not think anybody is going to disagree with you. I guess I just want to give you a little advance notice. It would appear to me from those two statements that what you are saying under this free trade agreement is that you are in favour of, essentially, world prices for gas. If we are confined under our agreement with the United States on a continental energy plan not to give our own consumers a preferred rate, we are looking at world prices. Is that correct?

Mr. Pinnington: I think that there has been a great deal of debate. As you know, this country, at one stage of the game, did have crude oil priced at less than the world price, and the circumstances behind that situation were that the price of oil went from \$3 to \$30, and there was economic impact and all of those good things.

In reality, what has happened over the past few years is that there has been a very definite move on the part of government policy to move to market-driven pricing, a market-driven balance between supply and demand. Our customers are all front and centre saying, "If we are going to compete in the international market, we are willing to compete on the basis of supply and demand and what the world price is for crude, natural gas or any other of the raw materials."

I suggest to you that the industry is in line with competitive pricing. We support the policy of competitive pricing.

Mr. Ferraro: I guess we will carry this conversation on, Mr. Chairman, when they come in for their next presentation.



Mr. McLean: Can I ask a supplementary on Mr. Ferraro's? You mentioned the \$1-billion debt we are going to have this year and you are saying the debt should be decreased. How do you propose the government should decrease its debt when it has raised its spending 30 per cent in the last 3 years? How is it going to do away with its deficit when it has increased its spending by 10 per cent each year?

Mr. Anderson: What we are saying is that revenues are increasing, as well as expenses increasing. We think you should be trying to manage the gap between the increases in expenses and the increases in revenues so that the deficit can be reduced. It is a combination of the two, obviously, but it will include--

Mr. Chairman: You do not buy the argument the Treasurer (Mr. R. F. Nixon) would make, that if you build a hospital which is going to be around for 40 years, we can spread out the cost for 40 years, much as industry would do? You are saying the deficit should be down to zero in two to three years.

Mr. Anderson: That would be the proposal, yes. On the issue of a hospital over 40 years, obviously there is benefit there over 40 years. That gets back into how you account for the government's expenditures and what the deficit actually is and so forth. That gets very complicated. Certainly, it is a narrow argument. There are obviously some longer-term benefits there, but at the same time there are an awful lot of one-shot expenditures as well.

Mr. Chairman: I think he would argue that on the current account we are paying our way and that we are simply financing capital expenditures with the deficit.

Mr. Harris: Can I just have one supplementary on that, Mr. Chairman, to try to clean it up?

Mr. Chairman: All right.

Mr. Harris: Were you going to recognize me anyway? OK. Skip the supplementary then. I will not have to try to stretch it into a supplementary. I can carry on.

If I understand your brief, I think you have said, using the Treasurer's figures over the next three years and using the existing level of expenditures, inflation and projected economic growth, that the budget can be balanced if the priority is that those dollars go into balancing the budget versus new programs. Is that a not bad generalization of what I have read through here today?

Mr. Anderson: We did try to differentiate between new programs, but did try to say that overall expenses should increase less than the increases in revenues. That gap that exists, as we demonstrated on the overhead, should be widened.

Mr. Harris: I also want to comment on the capital side. There are two arguments. One is that governments do not depreciate their assets either and, as a result, capital spending, year over year, always goes up. It is fine to take all these things and put them into a capital account and say we are paying our way on the operating account, provided that at the same time the Treasurer says: "We are going to build a \$40-million hospital, but we are not going to build any next year. We are going to amortize it over 20 years or 40 years, but there is not going to be one next year to replace it."





I guess I will accept the argument that everybody uses, and Treasurers try to use, when I see the capital account go down from one year to the next, which I have never seen.

I do not understand why you keep trying to confuse the issue. I am the first to acknowledge that Conservative Treasurers do it and Liberal Treasurers do it. Let us really look realistically at what is happening and for a while ignore the politics of how you gloss over what you have actually done. I do not think anybody can argue--

Mr. Haggerty: Like cash-flow requirements.

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Mr. Harris: That is right, that is what they are. It astounds me that if you want to use that argument to try to make a Treasurer look good, regardless of what party persuasion he is, the other side of it is you are saying there are not going to be any more capital expenditures next year; we are just going to pay off the ones we made last year at five per cent a year for 20 years or whatever. Anyway, I throw that into the mix. I know I am taking up time.

I want to ask briefly about acid gas emissions. I find it intriguing that in your brief you argue that Ontario Hydro ought not to be making decisions based on indigenous Ontario resources or what is economically good for Ontario. The number one consideration ought to be providing power at the cheapest available cost. Yet, you do not hold that argument up for acid gas emissions. It strikes me that if it is to your advantage--I am being critical, if you like--that conditions other than providing power at cost are OK, like acid gas, is that a fair criticism?

Mr. Anderson: Why do you say that we do not carry it forward to acid gas emissions?

Mr. Harris: I am saying that because you feel acid gas emissions--it is to your advantage to use natural gas over coal, so that is a good reason to encourage the use of natural gas.

Mr. Anderson: Yes.

Mr. Harris: Yet, when you talk about nuclear power and Ontario Hydro's reasons for using nuclear power, you say: "No, that should not be Hydro's mandate. It should not be their mandate to use Ontario resources and spinoff effects in jobs and economic activity. Their mandate should be strictly to provide power at the cheapest available cost to Ontario." I find your brief a little bit--if it is to your advantage, it is OK to say, "We should be doing this. One of the reasons is to reduce emissions."

Mr. Anderson: I think you are saying we are arguing out of both sides of our mouth.

Mr. Harris: Yes.

Mr. Anderson: I do not think that is really the case. I think in the case of our suggestion that natural gas be used to reduce acid rain, that is a suggestion that there is perhaps a cheaper way of doing it than putting acid scrubbers in and doing all the other things that you have to do today to reduce the acid rain. Technology is coming down the road which may do it more



effectively, but in the meantime let us deal with the acid rain issue, and using natural gas is perhaps one of the cheapest ways it could be done.

Mr. Harris: Are you arguing that Ontario Hydro should be then considering acid gas emissions? That is a consideration that they should be considering?

Mr. Anderson: They should be considering the level of environmental impact they are having.

Mr. Harris: If it was 100 per cent nuclear in Ontario, there would be no acid gas emissions, is that correct?

Mr. Anderson: Yes.

Mr. Harris: You would be using an Ontario resource and all of those things would be--

Mr. Anderson: I do not think acid gas is the only environmental impact, though.

Mr. Morin-Strom: There is an occasional environmental concern about nuclear.

Mr. Harris: I understand that. It is just that, on the one hand--

Mr. Pinnington: There might also be some questions with respect to cost of hydro power under those circumstances as well.

Mr. Harris: I do not mind your brief being a little self-serving. I would expect it to be.

Mr. Haggerty: Can I have a supplementary on that?

Mr. Harris: Yes, on that, go ahead.

Mr. Haggerty: Just on that point, I am just a little bit concerned about it too, where you are saying that you should be using natural gas to produce electricity. I have heard this before on the Hydro committee. At that time, the committee took a good look at it and said that really natural gas is cheaper to burn and provide energy within the home. I am talking about cooking and normal heat through a home. Now here you want us to put natural gas into a coal-fired furnace, you might say, and come out with the same product, electricity. In other words, we are consuming one of them for nothing.

The point is that I can see it in cogeneration, where you want to burn municipal garbage or something like that. You need a quick fire there to help get the material burning and get some benefit out of that, but to duplicate and use natural gas to produce electricity--it does not have to go into a coal-fired plant but even in an ordinary, average boiler you can get the same results.

That has been thrashed through the committee before and it was said that is not the way to go. The way you should be going is providing that cheap energy to other communities in Ontario that do not have access to natural gas. But of course that would cost you a little bit of money to put those lines in there and provide that service. That is an area out there that you could tap that really would reduce the need for electricity, using cheap natural gas.





Mr. Pinnington: You have raised a number of questions. I am not sure I will recall them all to respond. Let me rise, first of all, to the question of putting natural gas to every consumer in Ontario.

Natural gas, for starters, goes to most large communities in the province, but whether or not a utility will take gas to a community is a decision that is made before the Ontario Energy Board. It is a regulated decision, and we can go only to communities where we can prove that we can lay gas into that community in a cost-effective manner. So it is not the role of the utility to limit where gas will or will not go.

Mr. Haggerty: But Ontario Hydro will go out and supply energy regardless of what type of ground conditions are there. It is in almost every community in Ontario.

Mr. Pinnington: That is exactly right, and I think that is their mandate under the Power Corporation Act. I think they are obliged to do that, and this is the power-at-cost principle. If it costs a very much higher rate to put electricity into Manitoulin Island, that cost is absorbed in the whole cost, and that is part of the Power Corporation Act. It is part of their mandate to do that. The natural gas industry in Ontario does not work under the same mandate as Ontario Hydro does.

There is one other area that you have raised that I think it is important that we clarify. You made mention of the fact that natural gas is used in the home to heat the home, to cook and to provide hot water, and that is indeed the case. As you will see from the statistics, something like 60 per cent of all the homes in Ontario now have natural gas. New home construction, for example, in those areas where gas is served, is in the area of 90 per cent natural gas, so we have a very sizeable presence there, and the quality of the fuel and the price of the fuel are recognized.

Mr. Harris: That is great.

Mr. Pinnington: I am being self-serving, I am sure. You challenged, I believe, the use of natural gas in the question of power generation. Of course, not all the power that is produced is used to heat homes. There are motors, compressors, various lights and miscellaneous other applications.

The reason we suggest the use of natural gas--and there is not a shortage that would impair the availability of natural gas to the residential sector, so we are not suggesting that you cut back on the availability of gas in the residential sector--is we are saying that we have more than enough and that it can be a very positive influence in the manufacture of electricity by way of, for example, very significant reductions in acid gas emissions where you are using coal, in particular. I hope I have clarified that question about the use of gas in electric power generation.

Mr. Harris: Even in your brief, I think you refer to electricity generation as an interim measure. You are not then suggesting we should be building new gas-powered plants.

Mr. Pinnington: No, we have not suggested that.

Mr. Harris: We should be using what we have.

Mr. Pinnington: For example, the R. L. Hearn generating plant has



been powered by gas and we think the Hearn could be. The Hearn is located in a highly populated area where clean air is a serious problem, so you could use gas there and not have offensive emissions.

We are also suggesting that it could be used in other coal-fired applications along with coal. Until such time as you have put in scrubbers or scrubber technology is improved or clean-coal technologies are improved, natural gas would be a very good alternative and a very cost-effective alternative.

Mr. Harris: I know everybody does not like the nuclear example I used, and I used it just to point out what I thought was a bit of an inconsistency. The other example might be to buy water-generated electricity from Quebec in the future, which gets rid of acid gas emissions totally, as well.

Mr. Anderson: I do not think we would oppose that.

Mr. Harris: I note also you talk about fair competition between energy resources based on true cost, as a review of your 1987 brief. While I am supportive of your recommendations in the short term vis-à-vis road tax on gas-powered vehicles, there is a problem if you are very successful. There has to be a point that the more successful you are, how much should you be contributing to the roads of Ontario? I am not sure you are going to reach it this year, but it is something that is going to have to be looked at if you are successful.

Mr. Pinnington: We fully expect that would be the case.

Mr. Harris: So you are just asking for one more year and then you will come back next year.

Mr. Pinnington: I do not think we specified one more year. I think we have a five-year plan, in fact.

Mr. Harris: I wonder if you could explain to me the problem you are articulating--I think I read something about it in the paper not too long ago--that if it is not looked at, home owners are going to have to pay substantially more for gas. That is this problem of industrial accounts buying direct and presumably using your transmission facilities at a fixed cost or at the same cost that is there.

I may not be explaining it right, but you have identified it in your brief. I am not quite sure I understand what has to be done to solve the problem that you see coming.

Mr. Pinnington: Let me have a try at that.

Mr. Harris: I understand that a number of industrial accounts can now negotiate their own price, and it is substantially lower, I gather, than the fixed long-term contracts you have negotiated for the bulk of your supply.

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Mr. Pinnington: Let me observe, first, that it is an extremely complex debate, and you are not alone in questioning exactly how it works. In round numbers, the papers have been reporting, I think, \$130 a year. Indeed, that number relates to the difference between what a large industrial account





like a C-I-L, Dow Chemical or a Cyanamid might buy it for on the direct purchase basis and what the utilities are paying. Subsequently, it is translated into their residential price.

Let me suggest to you that this whole process is done by way of the regulatory process through the Ontario Energy Board and that those prices were all negotiated and discussed and reviewed in very specific detail before the OEB. The position taken by the utilities was that they were the very best prices they could get under the circumstances at the time. Indeed, the reality is that if we had to go back and renegotiate today, we probably would not get prices as good as we have right now.

Where the confusion and the complexities lie is that we are in the middle of a less regulated environment. You hear the term "deregulation," which is really a misnomer. We hope we will have a less regulated environment, but right now we are in the process of reregulation. Because of the fact this whole process is not in sync, there are some inconsistencies and one of them comes about in this debate we are now having.

I think it is very important to observe that the end price to the consumer, in the case of natural gas, is about 20 per cent less than it would be for oil to heat your home or in the order of 30 per cent less than it would be to heat your home with electricity. From a competitive point of view, natural gas is still a very competitively priced energy source to heat your home.

Mr. Harris: What are you saying? I know it is a complex kind of thing, but what did you say? I gather this would be one area where you are talking about the Alberta government and the Ontario government coming to a better understanding.

Mr. Pinnington: Indeed.

Mr. Harris: Is there any thing specific you are recommending that we should be doing?

Mr. Pinnington: That you should be doing?

Mr. Harris: Yes.

Mr. Pinnington: I think governments, ministries of energy in particular, can be talking about things like, for example, resolving this question of core market, which you are also hearing.

Mr. Anderson: The industries and the government of Ontario need to get together and understand what they want out of the system and understand the issues. We are really at odds, as I understand it, at least with Alberta, on this core market issue. We are willing to sell gas at a price that is competitive and that price which is competitive is different to industries, which have alternatives, than to home owners, who do not have as much of an alternative and whose next cheapest alternative is maybe a lot more expensive, as Paul said, than an industry that might burn heavy fuel oil. There are a number of competitive issues. The price to the individual customer does not need to be as cheap as the price to the industrial customer.

How Ontario, in energy regulation, always views this is that gas coming into the province has to be passed on to all customers equally across the board. It is this issue of Alberta taking the position with respect to the



core market there and Ontario saying basically that it needs to be a level amount to each customer that is the real problem, and it is not an easily solved problem. It is one which I think needs industry, governments and probably a lot more discussion between governments in Ontario and governments in Alberta to solve.

Mr. Harris: In the short term, will you be going to the energy board arguing that where a large industrial customer has negotiated his own price, you need more money for the transmission of that from the border to him?

Mr. Anderson: No.

Mr. Pinnington: There is a whole process before the Ontario Energy Board to establish what the cost of distribution is. Each utility brings forward a detailed cost statement of what it costs to move gas through the pipeline system.

You asked, are we going in the short term? The short term is very important in terms of the question of these very low prices to the large industrial consumers. Many of those price arrangements are 60 days, six months, a year. Very few of them exceed a year. The contracts that support the domestic heating market are 15- or 20-year contracts. Therein lies probably the major question of the difference of \$1 or \$1,000 in prices, the question of security of supply.

Again, these are all elements that need to be debated between governments and this is what we are suggesting to you, that ministries of energy should be working together to review these matters.

Mr. Chairman: I am going to have to move on. Mr. Neumann has been waiting, and then we will have to call it a day for this group.

Mr. Neumann: I think most of my questions have been answered already.

I noticed in your report you made reference to the need for some kind of joint committee of Ontario and Alberta and the private sector. What is your assessment of the current relationship? Do you feel it has deteriorated or has been improving? I am looking for the motivation for that recommendation.

Mr. Pinnington: At the private sector level?

Mr. Neumann: At both.

Mr. Pinnington: I think as part of the deregulation process, from the private sector point of view, there was a committee struck, probably about four years ago this May, called the natural gas industry summit, in which the producers, transmitters and distributors of gas gathered together and talked about how this whole deregulation process might unfold.

I suggest to you that there is a much better understanding of each other's problems and aspirations than there ever was before. But the reality is that those in western Canada are sellers and we here in eastern Canada are buyers, and we are always going to be arguing back and forth over what the commodity is worth. I would say the relationship at the private sector level is very good, but we have some good, stiff debates about what the commodity is worth.





Going to the government sector, I suggest that in the recent few years there has been a very marked improvement in the relationship between Ontario and Alberta. I think bureaucrats are talking to each other freely and hopefully sharing what the concerns are, what the policy implications are. I think directionally we are headed down the right path. Our recommendation is that we maybe formalize that process more and certainly continue along the lines that we are working in today.

Mr. Anderson: But the deregulation aspect of things, the very problem that I was talking to Mr. Harris about on the core market, are things that are recent acrimonious issues, I guess, between Alberta and Ontario. When the Ontario Energy Board comes out with decisions on gas costs, as it recently did with respect to the renegotiated contracts, those are things that really rankle Alberta. Those are the kinds of things you need to sit down and talk about, not fight with each other about through rhetoric in the newspapers.

That is the suggestion we are making. It is really, "Let's get together and sit down." We are at opposite ends of the spectrum. They want to sell to the United States. They want access to markets. We want to worry about security of supply and price. We are at opposite ends of the spectrum, but we have to sit down and work out the medium ground.

Mr. Neumann: My other question relates to the deficit. I did hear your answer with respect to your preferences with regard to how to eliminate the deficit earlier on. My understanding is that you would like to see a balanced budget and you would like to see this achieved not through tax increases but through expenditure control or cuts.

Mr. Anderson: Revenues are increasing because of economic activity, so you do not have to cut expenses totally in order to balance the budget. You just have to have expenses growing less quickly than revenues are growing.

Mr. Neumann: My question then relates basically to getting a reaction from you to something the Treasurer indicated to us on Monday. He said he is not that concerned about the deficit because it is not a deficit on the services end. Basically, Ontario's current deficit is a percentage of our investment in capital projects. He said that makes sound business sense. Your reaction to that?

Mr. Anderson: It is somewhat the same question we talked about earlier. There may be some merit to this capital spending aspect of things, but without close examination of it, you do not know how much of the real issue is being masked by that argument.

The real issue, to my way of thinking at least, is if you cannot balance the budget in the good times, you are never going to balance it, basically. When things go bad, things are going to go bad quickly and probably much worse than they have ever been before with respect to spending and balancing the fiscal accounts. So pay attention to it now, while the times are good and make an honest, sincere attempt to balance the books. You are not always going to be able to balance the books, there is no way, but you have to make an attempt at it or you are never going to succeed at it.

Mr. Neumann: I am new at the provincial level, with recent experience as mayor of a medium-sized city in Ontario. If my community needs to bring a new industrial park on stream and it is going to cost several million dollars to do this but the benefits are going to come back over a long



period of time, does it make sense to pay that out of the current budget rather than borrow and amortize it over the period in which the return is going to come?

Mr. Anderson: There is merit to the argument, I think. It is to what extent you go to get rid of the issue. Obviously, there is merit to the argument that business borrows to finance capital projects and so forth, but it is difficult at this stage for me to differentiate between the capital spending and the operating spending.

Mr. Chairman: I know, Mr. Harris, that you have expressed the opposite view. The problem is that we do have another presentation.

Mr. Harris: But it is not getting through, so let me take 10 seconds and do it one more time. If you accept some of that argument, then you surely must accept that you have to pay some of that capital back. When a municipality borrows over four years, each year in the budget it pays some back. We have never paid a cent back on any of this capital spending over the last 100 years, not one penny.

Mr. Pinnington: We have spent a great deal of time talking about the deficit--

Mr. Harris: So put that into the budget and see where it figures up.

Mr. Pinnington: --but we must adapt ourselves to the debt as well, and it continues to increase. I think that is what we are saying. While you can get the deficit down and hopefully maybe even get the debt down, at some point you have borrowed so much money you cannot afford to pay for it. I am sorry.

Mr. Chairman: No. That is understandable--

Mr. Neumann: Mr. Harris may be talking about the past debt that occurred when previous governments were borrowing based on current expenditure.

Mr. Chairman: Please bear in mind that we are happy you raised this. We have had a number of presentations from different interest groups as to where we should be spending more money. Obviously, as I have been saying, this puts us in a bit of a vise, but sooner or later we are expecting to be asked that or told that--

Mr. Neumann: It is too bad Mr. Harris left. I was going to say that he sees a contradiction in my position, but we have had quite a few delegations before us asking us to increase the expenditure of the province. Every time I heard Mr. Harris say, "I agree with your presentation." Yet he is constantly saying balance the budget. The only alternative is to increase taxes, and I have not heard him saying to increase taxes.

Mr. Morin-Strom: On a point of order: Just to get a point in from our party's perspective, I find it quite fascinating that various industrial groups come in and say, "We should balance the budget," but never say, "We are willing to pay our share of it," and that taxes should go up proportionately in order to do it.

Mr. Chairman: We have heard a bit of all three points of view from a political perspective.





Thank you very much. We appreciate it and, obviously, from the tenor of the questions, we are certainly looking forward to hearing from you in March with regard to the trade agreement.

Mr. Pinnington: We will await your word on the timing for that.

Mr. Chairman: Yes. Obviously, as well, we are going to have to ponder your concerns with regard to the deficit and also with regard to the uses of natural gas. Thank you.

The last presentation we have today, and I apologize for getting a little behind, but the presentations have all been interesting, is from the Toronto Stock Exchange, Marie-Josée Larocque, manager of economics and government affairs. Just have a seat there. I understand you have a text with you.

Ms. Larocque: Yes. Maybe I can distribute it after the presentation.

Mr. Chairman: All right, fine. Perhaps you can introduce those with you.

#### TORONTO STOCK EXCHANGE

Ms. Larocque: I would like to introduce Steve Rive. He is the senior economist at the Toronto Stock Exchange.

Thank you, Mr. Chairman, committee members. I regard this as a privilege to be here this afternoon. The Toronto Stock Exchange appreciates the opportunity to raise with you some key issues affecting the securities industry.

In today's presentation, I will outline the TSE's views on budget-related tax issues and, more particularly, discuss our concerns about federal tax reform, both part 1, income tax reform, and part 2, the multistage sales tax.

As you know, Ontario's economy made solid gains in jobs and output across almost all regions of the province and in most sectors during 1987. This performance is especially gratifying given the age of the current expansion. However, we at the TSE are concerned about signs of an economic slowdown.

Prior to the October market break, the economy was poised to enter the investment phase of the business cycle. With consumer demands slowing further and the US economy showing signs of weakness, business investment is vital. We need capital spending to maintain our economic momentum and lay the foundation for continued growth in the ever-more-competitive world of the 1990s.

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In this context, we would like to discuss two policy initiatives, one current and one potential, that would directly affect capital formation, economic expansion and equity markets in this province. These issues are employee share ownership and tax reform. The employee share ownership plan, or ESOP, is one of many measures the present government has taken to stimulate investment and ensure Ontario's competitive future. Unfortunately, tax reform, as currently proposed by the federal government, threatens to undermine these efforts. I will now elaborate on each of the above-mentioned issues.



First, I am pleased to say that the Toronto Stock Exchange fully supports the employee share ownership plan introduced by the Ontario government in 1986 and given royal assent last month. We believe such a program offers an exciting opportunity for Ontario employees to gain equity market experience, while contributing to the financial health of eligible provincial corporations.

With a keen interest in the subject, we decided last year to do further research on the performance of ESOPs in Canada. Our findings reinforce the case for ESOPs. Briefly, we found that Canadian employees and employers are very satisfied with their ESOPs. ESOPs appear to ease labour-management conflicts and improve employee motivation and commitment to the job.

We also found that the companies taking advantage of ESOPs were among the most productive and profitable in their sectors. For example, ESOP companies, compared to their TSE-listed competitors, had profit margins that were 95 per cent higher, five-year profit growth that was 123 per cent stronger, after-tax return on equity that was 92 per cent higher and debt-equity levels that were nearly one third lower.

These findings are very exciting and augur well for employers, employees and the Ontario economy as well. We are also sure that the very favourable TSE findings and the likely success of the Ontario ESOP program will encourage the Ontario government to extend the advantages of ESOPs to a greater number of Ontario-based corporations, particularly given their growing capital needs.

The second major issue I want to talk about is tax reform. The Toronto Stock Exchange shares the view of the Ontario government that tax reform will be crucial in shaping Ontario's competitive future. Indeed, we fully agree with the Treasurer (Mr. R. F. Nixon), who said in his statement to the Legislature on tax reform, "It is important that tax reform not endanger Canada's overall competitive position."

Our view is that tax reform, as currently designed, will damage our competitive position, hurt the ability of Ontario firms to raise capital, increase firms' compliance and administrative costs and distort business and consumer choices.

First, I will review briefly our concerns with phase 1, income tax reform, so that committee members can better understand our position. We have already discussed these issues with federal government officials. Briefly, personal tax measures in phase 1 affecting capital gains and dividends will reduce risk taking and investment. As a result, job creation and growth will suffer.

On the corporate side, we agree with the Treasurer. Certain measures--such as the reduction in federal capital cost allowances; lower investment tax credits and research and development tax incentives; the tax treatment of preferred shares; and the phase-out of depletion allowances on mining exploration--will weaken the competitive position of Ontario firms, reduce the attractiveness of capital spending and limit access to equity capital. Action is needed at the provincial level to offset the negative impact of federal measures. Therefore, in its submission to the Treasurer, the TSE is recommending that the Ontario government reduce provincial corporate tax rates.





Turning now to phase 2, the multistage sales tax is an area where the securities industry has major concerns. In fact, we believe the sales tax reform measures proposed for the securities industry run counter to the three goals of sales tax reform: fairness, simplicity and neutrality.

As the efforts of the provincial and federal governments to improve the sales tax system continue, we cannot stress enough the crucial role that Ontario, as the largest province in Canada, has in designing an effective national sales tax.

We view the proposed MSST as such an important issue, both for the future of the financial sector, and for the economy, that the rest of my talk will focus on sales tax reform.

We question the proposal to tax financial services on two major points. First, the MSST is intended to be a tax on domestic consumer expenditures, not on savings. So why tax services purchased for the sole purpose of savings? Second, firms are supposed to be able to pass the MSST on to their customers. While firms in other sectors will be able to do so, our ability to pass the tax on will be very limited.

Let us deal first with the issue of consumption versus savings. As we understand it, the intent of sales tax reform is to tax consumption, not savings. Our services are crucial in transforming savings into productive capital. We should, therefore, consider them inputs to the saving-investment process. As noted in the federal white paper, a tax on business inputs raises the cost of capital and discourages investment. Thus, if you raise the cost of financial services, you impede the flow of savings into the technologies and plant that we need to compete. In the long run, growth will be slower, jobs fewer and labour productivity lower, and that should be of concern to this province.

The second problem is the securities industry's ability to pass on the tax. Capital markets are global in scope and highly competitive. Transactions abroad can be done instantly at no extra cost to Canadian investors. Thus, in many cases, we are simply unable to pass on any additional cost to our customers. The only remedy is for the industry to swallow the tax burden.

The exchange has built a model to quantify the impact of the MSST on the securities industry. Quite frankly, the numbers are shocking. With an eight per cent MSST, the tax burden on TSE member firms would be 24 per cent of pre-tax profits. The results are based on carefully considered assumptions about our ability to pass the tax on to different customer groups.

Federal officials have attempted to address the problem of the ability to pass on the tax. The government's response is self-assessment of imported services. We at the exchange and our membership doubt that self-assessment can be enforced, particularly for individuals and smaller firms. Larger businesses and pension funds will self-assess. However, this group has open to it other avenues that would permit tax avoidance. For example, multinational firms can do securities business through foreign affiliates operating outside the Canadian tax.

We know that the government shares our desire to ensure that Ontario's financial services industry remains both competitive and strong. We also know you are working to achieve the goals of sales tax reform--neutrality, fairness and efficiency. The proposed application of the MSST to the securities industry threatens these goals.



After much study, we conclude that the only solution to the problems I have raised today is to zero rate the financial services industry. We would therefore urge you to recommend zero rating for financial services.

There is not time to go into a detailed explanation of our position today. But if I can leave you with one thought on the MSST, it is that we are not asking for special treatment. We support the MSST and only ask that our industry be given the same treatment as others.

Thank you very much. I will be pleased to answer some questions.

Mr. Chairman: Thank you very much. Those were very firm statements.

Mr. Neumann: I have a number of questions. You mentioned employee share ownership. You thought that eases labour-management conflicts, and this is based on some research.

Ms. Larocque: That is right.

Mr. Neumann: Do you have specific examples, case studies, that you have done?

Ms. Larocque: Yes. We put out a report late last year. We did a survey of employers and employees and we asked them questions. It is more judgemental, not on specific issues. Employers have told us that it has helped and employees have told us the same thing. I can leave you with a copy of our report.

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Mr. Neumann: Second, are any of these firms that have organized trade unions?

Ms. Larocque: Yes, some have. Actually, we brought a few copies, so you will find it quite interesting.

Mr. Neumann: My second line of questioning relates to the criteria for sales tax reform: fairness, simplicity and neutrality. Zeroing in on neutrality, you say that neutrality is one of your objectives.

Ms. Larocque: That is right.

Mr. Neumann: What do you mean by neutrality? I think I understand, but I would like your explanation.

Ms. Larocque: So that the tax will be paid by the ultimate consumer and therefore the system will be neutral.

Mr. Neumann: Then I did misunderstand neutrality to some degree. I thought perhaps neutrality might mean that the tax is there to raise revenue and does not have a social objective as part of the tax.

Ms. Larocque: No.

Mr. Neumann: Perhaps I misunderstood it then.





Mr. Rive: Just to add a point, neutrality, I think, has been used in two senses. One is that the tax should not distort consumer decisions. It also should not favour one business over another.

This is one of the problems with the present manufacturers' sales tax, it affects industries producing the same good in different ways just by the coincidence of how they are structured.

So neutrality has a double meaning in the sense that all of the tax is supposed to be passed on to the consumer and industries are not required to swallow the tax. That is the first point. Second, it does not distort consumer choices over goods. At the moment, you pay a tax on manufacturing but not on services. The taxes would be neutral in that sense as well.

Mr. Neumann: That is where my misunderstanding came, with the two ideas, because when you said that the tax is going to discourage savings, then it certainly is not neutral. It is there with an objective.

Ms. Larocque: Our concern is that the goal of neutrality is not being met.

Mr. Neumann: The government objective, then, is to tax only the consumer side of things. The sales tax should focus in on consumer services, not services related to savings.

Ms. Larocque: That is the issue of consumption versus savings. The multistage sales tax has been designed by the government to be a tax on consumer expenditures. We are saying that services we provide are related to savings. The government wants to tax consumption, not savings, but the kind of business that we are in signifies savings and we are asking why these services related to savings are being taxed if it is not a tax on services.

Mr. Neumann: In governments taking that action, they are saying that savings should be encouraged rather than--

Mr. Rive: It is not neutral in that sense.

Mr. Neumann: Are we not, as Canadians, one of the highest saving countries in the western world already?

Ms. Larocque: Yes, we have a high savings rate.

Mr. Neumann: A higher savings rate than many other western economies?

Ms. Larocque: We have a lower savings rate than we have had in a long time in Canada.

Mr. Neumann: It has dropped?

Ms. Larocque: It is higher than in the United States.

Mr. Neumann: So could it not stand some dampening if it is going to perhaps increase revenues and help to reduce the deficit?

Ms. Larocque: It depends on how you see savings. Are savings used by corporations to do investments? Corporations will be able to get equity capital, other sources of revenue, through the savings process and they can use that money for investment. So during an economic cycle, you do need savings.



Mr. Neumann: I would like to give other people an opportunity, but in time I would like to come back to my standard question on how important the deficit is.

Mr. Chairman: Fair enough.

Mr. Morin-Strom: I find it interesting that you seem to characterize something that puts all the burden on consumers and none of the burden on savers as a tax that is neutral. That may be a perspective that you agree with, but I do not think most people in our society would agree that all taxes should be ultimately paid at the consumer level and that we should take all taxes off savings.

Ms. Larocque: That is what the government is saying.

Mr. Morin-Strom: That may be what the federal Conservative government is saying, but I do not think most of the public is, and that would be the general philosophy, I would think, of the other two political parties. That would encompass the principle that those who pay have a lower income and have a high percentage of their income having to go into consumer items because they do not have the ability to invest and build up capital stock. They end up having to pay a much higher percentage in tax, in fact, than someone who has a higher income level and has the income to be able to invest or save and build up his own personal family business capital stock as opposed to buying items or services.

I would not buy that as a principle that I would think most Canadians would even agree with. Maybe the business community thinks it is a good idea. But that is the principle you think should be pursued.

Ms. Larocque: I do not think we are saying that the poor should be punished. We are commenting on what the government calls a consumption tax and we are saying it is not purely a consumption tax because it is taxing services that relate to savings. I do not think at this point we are making a comment on the whole philosophy of the poor versus the rich in a regressive tax system or progressive tax system, it is a comment on the current proposal. The provincial government will also be commenting on the multistage sales tax.

Mr. Morin-Strom: The other issue I wanted to ask about was your study on the employee share ownership plans. It would be interesting to see a copy of that study.

Ms. Larocque: We have that for you.

Mr. Morin-Strom: OK. I would like to ask whether in fact you looked at the cause-and-effect relationship.

Ms. Larocque: No, we did not conclude directly that--what comes first? Are companies very profitable because of ESOP? There is a very big debate in the US. What we have stated in our report is the observation that ESOP companies are, as I said earlier, much more profitable and have a lower debt-equity ratio, but we are not saying that one is directly linked to the other. You will find in the literature very opposed views on that.

Mr. Morin-Strom: I would think there is some cause-and-effect relationship the other way around, that in fact a company that is more successful is more likely to want to have an ESOP plan than the reverse.





I will just give you my own example of Algoma Steel. It did not specifically have an ESOP plan but had something that was very common in major industries, an encouragement for employees to have a payroll deduction and buy shares on a regular basis. They had that in place in the late 1960s and into the early 1970s, but in fact that company cancelled it in about the early to mid 1970s and the rationale in fact was that the share performance was not good. They found that the ownership of shares of the company by its employees was a discouragement, because the employees were upset that this investment they were putting into the company was not doing well. So in fact there can be an incentive for companies that are not performing well to want to not have that because it is a discouragement factor.

Undoubtedly, on the other hand, for a company that is doing well, is a young company in a growth state, there can be a benefit to its employees, obviously, in terms of seeing growth in their shares.

Ms. Larocque: I think if you could look at the results on a company-by-company basis, you would find both: companies that go towards ESOP because they need equity capital, they want to improve the morale and they feel that is a good way of improving productivity, motivating employees, and others that have a problem with it because the shares go down.

After the market correction in October, a large administrative ESOP did a survey among its clients to find out the opinions of the employees because it wanted to know what their reaction was. They found that the employees and employers were actually saying: "I have been waiting for a decline in the price so I can now get in, because I see this as a long-term investment. I do not see this as a short-term investment."

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Over the long term, as you probably have seen, the statistics indicate that an investment in the stock market has a very good return compared to returns in other types of investment. The reaction that we found very interesting and very positive is the employees were waiting for a price they felt was affordable for them, so there was not as much of that pronounced concern you mentioned.

Mr. Morin-Strom: Do they tend to exist primarily in the smaller firms or do you see them in the long-established industrial giants?

Ms. Larocque: I think if you look at the report you will see them in all sectors of the economy.

Mr. Harris: On the ESOPs, I am not exactly sure I understand what you said. Are you saying we should be doing more in that area, are you recommending anything or are you pleased to see the bill was passed?

Ms. Larocque: At this point, we are pleased to see that the bill has passed. It is not that we recommend, at this point, but we are saying to the government: "Look at how successful the program will be. We believe it is a very good program. We believe that employers and employees find some very positive aspects with the program. If you, after an evaluation, see that it is successful, please consider expanding the program to include all corporations in Ontario, not just the small ones."



Mr. Harris: I am not nearly as up as I should be on the whole federal tax changes and the multistage sales tax, the MSST, as it is referred to. On the revenue-neutral thing, I think your recommendation is that financial services receive a zero rate on the basis of your understanding of what revenue-neutral is to be, that it is to be neutral to business and because you cannot pass it on, so you should be taxed at the rate that you can pass it on, which is zero. Is that sort of what you are saying, that you cannot pass those costs on?

Ms. Larocque: I think Mr. Rive gives an example of food as being zero-rated. The grocery stores were not ecstatic. They were not going around saying, "Food is now zero-rated," because Loblaw's and other stores were going to pass on the tax to their customers. So they were indifferent--well, they were not totally indifferent; they might come here and tell you something else. But the understanding is that the tax would be passed on to their customers. You would not have individuals driving to the United States to buy their groceries every week.

What we are saying is in this particular context in the securities industry it is today very easy to trade internationally. We are not enclosed. Our current customers can turn around and deal with the United States almost as easily as they can deal with their Canadian broker. Therefore, so that the securities industry would be indifferent, like many other sectors, you would have to be able to pass on the tax. If you do that in the Canadian context and it is not happening in the US context, if you go as an investor who wants to trade in the US and you go to the US and you trade, you will not have to pay that tax.

Mr. Harris: You will not if you use a US trader on the Toronto Stock Exchange?

Ms. Larocque: No, not on the Toronto Stock Exchange. Oh yes, OK, the Toronto Stock Exchange. If you want to buy their many interlisted stocks. So if you decide to buy a stock, then you say, "OK, if I get it in Canada, I will have a transaction." There will be a commission fee and there will be a tax on that commission. If I go to the US, there will be a commission fee but the US government is not saying, "Tax the commission," so there will be no tax. So my commission will be lower by the amount of the tax.

So you bring this back. You are supposed to self-assess. Therefore, at the end of the year, at the end of the quarter, at the end of the month--I do not know how they are going to work it out--although you have made a transaction in the US and you are not taxed, you are supposed to tell the government, "OK, I will declare that I have made this transaction, there is this much in terms of commission; therefore, I should pay that much in terms of tax." That would make you indifferent between trading in Canada, where you have paid the tax up front, and trading in the US, where you pay the tax later on. What we are saying is that for pension funds of very large institutions, we believe that self-assessment will work. They will follow the law. For individuals and smaller firms--

Mr. Harris: They will cheat.

Ms. Larocque: --it is more difficult to guarantee that there will be full self-assessment. They provide a big chunk. On our market, individuals represent 70 per cent of commissions.





Mr. Harris: But if they did not do it, they would be cheating?

Ms. Larocque: Yes, that is right. I guess it is like the example of between provinces: you are supposed to declare and pay a tax when buying stuff from one province in another. Do you do it or does anyone do it? I will not quote you on that.

Mr. Harris: I try hard to buy everything in my own riding.

Ms. Larocque: That is good.

Mr. Harris: Go on, do you have something else?

Ms. Larocque: No, no, it is OK. I did not want to put you on the spot.

Mr. Rive: Tax collected from Ontarians buying things in Quebec has not been a major source of revenue so far. That is the point.

Mr. Harris: That is a little different though. Did the federal government say where this will take place? Will it take place on the income tax form?

Ms. Larocque: I do not know whether they did.

Mr. Rive: No, it would take place on the MSST forms, whatever form they are going to take. We do not know what that would be yet. But it will be completely separate from income tax.

Mr. Harris: Correct me if I am wrong. I have heard what revenue neutral means to so many different people. Did it not mean when they came out with the whole tax reform that they were going to try and come up with a tax system that they felt would be more equitable and that the combination of everything they were doing would be revenue neutral to the federal government? That is what I understood revenue neutral to be; not that a company would not pay, or not whether they could pass it on or not.

You pay less in your income taxes and you pay more on consumption, admittedly, as an individual but I mean I never understood revenue neutral to be the explanations you have given me--and you might be right.

Mr. Rive: When we were talking about neutrality, revenue neutrality is another neutrality, it is a separate issue. What the federal government proposed is that we would have two phases of tax reform, each phase itself would be revenue neutral. OK? In the first phase there was a shift of tax burden from individuals to corporations, and that was a revenue-neutral shift.

Then in the second phase we would have the introduction of this multistage sales tax, and that the introduction of phase 2 would also be revenue neutral. So, either the tax would merely replace the existing manufacturers' sales tax or it would raise new revenues and there would be further tax cuts to make it neutral.

That is the plan. So that is revenue neutrality. That is not the same as what we were discussing with Mr. Neumann's question where we are talking about the neutrality of impact of the MSST itself on businesses and on consumer choices.



Mr. Harris: So, it is the intention--

Mr. Chairman: Mr. Harris, will you sit closer to your mike?

Mr. Harris: Yes. I am not sure anything I am saying is worth recording anyway.

You are saying that in your discussions with the federal government, your understanding is it is its intention that it be revenue neutral as far as impact on one sector versus another.

Mr. Rive: Yes. If we are talking about the MSST itself now.

Mr. Harris: Yes.

Mr. Rive: OK. The idea is that all intermediate buyers and sellers are able to pass the tax on. What it means in practical terms is that you would pay a tax on your inputs, you would collect a credit for that and you would charge a tax to your customers.

Mr. Harris: Right.

1700

Mr. Rive: Let us take stationery as an example where, if I am in business and I buy it, I say, "There is my tax, but I claim a credit." If I am a final consumer and I buy, I pay the tax and I am not able to claim a credit. That was the way it was supposed to work. As Marie-Josée said, when food was zero-rated that was not an advantage to Loblaws and the grocery stores, it was not that Loblaws has now got out of paying a tax.

Mr. Harris: No, it was an advantage to the consumer.

Mr. Rive: To the consumer, because Loblaws was just going to pass the tax through anyway. So, when we say that we are not asking for special treatment, what we are saying is that, in order to make us like other industries and indifferent to the tax, we need to be zero-rated because of the unique features of our industry. We are not gaining anything special from this. It is not as if the intent of the multistage sales tax was to tax businesses and we are now trying to get out of paying the tax. All we want is to be left indifferent the way other firms will be. If you are making widgets, it is fairly straightforward and you can pass the tax on. In order to give us the same status as the widget manufacturer, which we should have, it is necessary to zero-rate, but we do not gain anything from being zero-rated.

Mr. Harris: No.

Mr. Morin-Strom: I am not sure there is a distinction between your situation and the widget maker because most widget makers have competitors from elsewhere, either from another province or from the United States. Are they not in the same position as you?

Ms. Larocque: I think you will hear from groups. Where it is just as easy to pick up the phone and order and have something done right away in the US or in Canada, I think there will be a difficulty, which is international, but a grocery store--

Mr. Harris: If you live on the border, and you cross over to buy a





shirt next door, there is no duty. It is not just with American products. They will all be subject to the same--

Ms. Larocque: Yes, it is just how easy it is to access other areas where there is no such--

Mr. Chairman: You are saying your industry is particularly easy.

Ms. Larocque: That is right, because it is done over the phone and it is not that it will be something new that will take a while to get going. It is happening right now to a great extent.

Mr. Morin-Strom: So Ontario does not have regulations in place to know what stocks or other investment securities are being purchased or transactions are going on involving Ontario residents in markets outside of Ontario? If we could, presumably, we could tax that transaction as well.

Ms. Larocque: I guess you are right. These people are declaring their transactions. There are other problems, like multinationals or affiliates. If I have a corporation in Canada and I see that if I trade in Canada I will be subject to a tax, I can go to my affiliate in the US and do it there and I do not have to bring it back here. I bring it per chunk so I will not be subject to the tax.

It is a minor problem for an individual. An unsophisticated investor will probably not do that anyway. Even if he did, trading is limited so it is not such a big problem. But when you talk about sophisticated investors, it is not something new for them. They do it now and they will be looking at a quote of \$34.25 in Canada or \$34.25 in US and they will say: "OK, I have to add the tax to that in Canada and I do not have to do it in the US. What do I do?" And they do it now.

It is not just with the US, it is international.

Mr. Harris: It is an interesting problem that you are bringing to us. If, for example, you were given a zero rate and if I looked at your industry as one of those that competes for funds--in other words, I am going to invest in shares through a stockbroker on the Toronto exchange or I am going to invest my money in some other way--it would offer you an advantage there.

Ms. Larocque: What do you mean?

Mr. Harris: I might buy real estate.

Ms. Larocque: You would have to pay a tax.

Mr. Harris: The tax will apply to real estate commission, will it not?

Ms. Larocque: It should.

Mr. Harris: I might buy an insurance policy and the tax will apply there. Insurance companies are very aggressive now in marketing their whole life products.

Ms. Larocque: We are talking financial services.



Mr. Harris: Right.

Ms. Larocque: When we talk about this, I think you have heard us say financial services.

Mr. Harris: So you would say the insurance industry should have zero rate as well.

Ms. Larocque: I do not know what their position is.

Mr. Rive: You may be hearing from them.

Ms. Larocque: Yes.

Mr. Rive: There may be similar problems.

Mr. Harris: They are saying zero rate but not for the reasons you are saying it. They do not want to have to pass it on, because they think that would be a competitive disincentive to buying insurance.

Ms. Larocque: Because of international competition.

Mr. Harris: That may be.

Ms. Larocque: If all the other groups are subject to the tax, then they are all on the same level.

Mr. Chairman: Just as a supplementary question on this issue, if we were to zero rate you or if we were to stay out of tax reform altogether, as has been suggested here today, but the federal government went through with it, you are going to encounter the same problem in any event.

Ms. Larocque: Yes.

Mr. Chairman: Might we just as well throw in our two cents' worth? If they are going to be taxing the service in any event, the problem and the tendency to avoid Toronto would be there in any event. Might we just as well get something out of it, since the federal government is going to be damaging the industry in any event? It is hard to say. I guess it depends a little bit on the rates of tax.

Ms. Larocque: At this point, as I understand it, the discussions are going on between the federal and provincial governments to discuss the details. I do not think anything has been finalized, and we are here today to tell you, in your discussion, to take into account the structure in the financial services industry. That is very open. I will attack the next step later on, but at this point I do not think anything is finalized. Even the federal officials are telling us that they have drafted something for the financial services industry but they need a lot more input. In fact, they actually asked for a specific input from the financial services industry in the white paper. It is a sector where they are admitting they are having difficulties because it is a very international competition.

Mr. Chairman: Mr. Kozyra has been waiting patiently right from the beginning, subject to the party rules.

Mr. Kozyra: The figures, for whatever reasons, are very impressive, and you do recommend that the government extend this to more corporations. I





wonder what percentage of companies are presently involved in that. Outside the government limitations on the program, are there any other obstacles that we should know about and be trying to eliminate to encourage this program?

Ms. Larocque: Let me just give you the statistics. Sixty-three per cent of TSE-listed firms have plans. There are two different types of plans, the share purchase plans and the stock option plans. But you will get the details. The second question was on what the government should--

Mr. Kozyra: Outside the present limitations that the government has imposed, are there any other obstacles that we should be aware of to try to attack and remove, assuming that this plan is something that you recommend should be extended?

Ms. Larocque: In our discussions with the provincial government, the Treasury, at the time of designing the plan, we talked about helping companies set up such plans as well. It is very important. What is also very important to ensure the success of a plan is to communicate to the employees the details of the plan.

Mr. Kozyra: It is not so much an obstacle, but it is doing the marketing properly to sell the concept.

Ms. Larocque: Yes, at this point. I mean, there are also aspects such as the tax credit that is given. Obviously we could argue that it could be increased. If you had 100 per cent, you would have a lot more employees subscribing to it. These are obstacles. It is good that we have a plan. Anything can always be much better. I think it is wonderful that we have this in Ontario to start with. Let us watch how successful it is.

Mr. Harris: If the results are very successful, would you then not make the case there is no need for government to be involved if it is beneficial to employees and beneficial to employers? You are pointing that out and your study points that out.

Ms. Larocque: Although 63 per cent of TSE-listed companies that have employee share ownership plans, only a much smaller proportion, 23 per cent, have share purchase plans. So, 23 per cent is not that high. If Ontario's objective is to be more competitive to increase productivity, that is an area that the government may want to look at.

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Mr. Chairman: Mr. Neumann, do you want to ask your proverbial question?

Mr. Neumann: I wanted to ask whether or not you had a position on the issue of the deficit. Obviously, in setting any budget in any government in the western world, you have to make a decision whether to have a neutral budget--here we talk about neutrality again--neutral in terms of fiscal impact, coming in with a deficit. Similarly, should we be reducing the deficit or do we have flexibility within the current economy to increase the deficit and provide the needed services?

Ms. Larocque: I would like to give opinions of what you probably have seen in the industry. Let us just think about the federal budget in terms of the deficit.



Mr. Neumann: We are talking about the Ontario budget.

Ms. Larocque: I know. I was just talking about the federal one in terms of concerns about the deficit. We are concerned about deficit. The reaction was, for the federal side, that they were able to raise more revenues than expected so the industry, I think, expected more improvement in deficit reduction.

The deficit remains a concern. I think it would apply to the Ontario level as well. It depends on the ratio of your investments to your debt. I heard a comment earlier, something about having no deficit at all in three years or something like that. I think that is highly optimistic. Depending on the growth cycle and different cycles, we will be looking for a reduction in the deficit when appropriate, when the government can.

Mr. Chairman: Thank you very much Ms. Larocque. When I was hearing the discussion about how easy it is for customers of stock exchanges to move back and forth, I could not help but recall that a year ago when I was in England, Mr. Wells informed me that London is essentially the capital of the Arab financial world and it is not uncommon for two businessmen in Saudi Arabia or Egypt to consummate a deal in London. What you are saying drives that home.

Ms. Larocque: Yes.

Mr. Neumann: Now it is a round-the-clock world that we live in.

Ms. Larocque: Exactly.

Mr. Chairman: Are we moving towards that now?

Ms. Larocque: That is what the big concern is. It is not that it will be something you do to the tax. It is happening now to a great extent and it can easily be extended. Thank you very much.

Mr. Chairman: Thank you very much. We will certainly be taking your presentation into consideration. You know the Treasury officials were listening, as well. Thank you.

The committee adjourned at 5:15 p.m.





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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

PREBUDGET CONSULTATION AND TAX REFORM

THURSDAY, FEBRUARY 18, 1988

Morning Sitting



STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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Witnesses:

From the Ontario Public Education Network:

Boswell, Richard, Chairman; Ontario Public School Directors' Association

Lafarga, Ruth, Vice-President, Association of Large School Boards in Ontario

Kidd, Edna, President, Northern Ontario School Trustees' Association

Wright, Arlene, President, Ontario Public School Trustees' Association

Kendall, David, President, Ontario Public School Teachers' Federation

Albert, Rod, President, Ontario Secondary School Teachers' Federation

Cline, Elaine, President, Federation of Women Teachers' Associations of Ontario

From the Council of Ontario Universities:

Arthurs, Harry W., Chairman; President, York University

Knox, Dr. Jane, Professor, Department of Psychology, Queen's University

Pederson, Dr. K. George, Vice-Chairman; President and Vice-Chancellor,  
University of Western Ontario

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DesRosiers, Dr. Edward, Director of Research

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, February 18, 1988

The committee resumed at 10:03 a.m. in room 228.

PREBUDGET CONSULTATION AND TAX REFORM  
(continued)

Mr. Chairman: We have a very busy schedule. Our schedule will also be incredibly demanding, particularly for Anne Anderson, next week when we will finish our hearings on Tuesday and try to write our report on Wednesday and Thursday. She would like a little time today, perhaps in camera, to hear from us as to what she should be prepared to be doing by Wednesday and Thursday.

Mr. Pelissero: Can we do that at five o'clock?

Mr. Chairman: At five o'clock?

Mr. Pelissero: I do not think we are going to have time this morning--not unless we come back early.

Mr. Chairman: Those are the only two options. Five o'clock?

Mr. Mackenzie: It is going to have to be.

Mr. Chairman: Yes. It is only fair that we apprise her a little bit about what our thinking is in so far as format and so on are concerned. Obviously we will not make any final decisions until we hear from all the witnesses.

We have some familiar witnesses in front of us today, the Ontario Public Education Network, and that includes a number of different groups which are mentioned on the front of the brief that has been distributed to you today. Representing the network is Richard Boswell, director of education, Simcoe County Board of Education. Mr. Boswell, perhaps you can introduce the people who are with you.

ONTARIO PUBLIC EDUCATION NETWORK

Mr. Boswell: We are very pleased to be able to be here this morning to present the brief on behalf of the Ontario Public Education Network. Just let me introduce the members who are here.

Ruth Lafarga, on my right, is here representing the Association of Large School Boards of Ontario; from the Ontario Public School Trustees' Association is the president, Mrs. Arlene Wright; from the Federation of Women Teachers' Associations of Ontario, the president, Elaine Cline; from the Ontario Public School Teachers' Federation, the president, David Kendall, on my left; and from the Ontario Secondary School Teachers' Federation, Rod Albert, the president of that association.



As the members might know, this group is a coalition of the three trustee associations, the public school teacher federations and the Ontario Public School Directors' Association of the public school boards in Ontario. We would like to point out that, although you have heard presentations before this one from both teacher groups and trustee groups, this coalition together represents the views of the teachers and the trustees in 80 boards of education, and we deliver service to about 1.2 million elementary and secondary school students.

We are here today with four principal concerns. We would like to raise the issue of the level of provincial support for elementary and secondary school education to address what we consider to be the inadequacy of funding allocated to public schools for capital projects, to talk about the proposal to pool industrial and commercial assessment, and finally, to make some comments on proposals to fund private schools.

Part of our reason for being here today is our understanding of the importance of reminding decision-makers such as yourselves and others in the government of the importance of public education, an education system which is fully accessible to all the students of the province.

During the last years, we have heard statements from the Premier (Mr. Peterson), statements in the speech from the throne and from the Treasurer (Mr. R. F. Nixon) himself that education is and has been the government's top priority. While we find much to applaud in statements such as this, we are very concerned that the actual level of government funding for education has not kept pace with those statements. In fact, current provincial spending on elementary and secondary education represents, as you know, a smaller percentage of total government expenditures than has been the case in previous years. For example, in 1974-75, the general legislative grants to school boards represented 16.3 per cent of total expenditures, and in this current year, these same grants make up about 10.6 per cent of total expenditures.

We recognize that while the actual provincial expenditures may have and in fact have increased each year, the provincial share of education has consistently declined over the last decade. If I might just refer members to table I, which is found in the brief on the third page in, these statistics are those drawn from the Ministry of Education. In the figures set out for 1974-75 you can see where the sharing ratios were in that year and what the history has been over the last year. So, in 1987 we are looking at sharing on a provincial basis at about 55 per cent local share and about 44 or 45 per cent provincial share.

I would like you to note that the decline in provincial support has continued as well since 1985, when the current Liberal government first took office, and this was in spite of promises from the Premier when he was opposition leader that the level of funding to 60 per cent would be restored. I would like to draw your attention to the fact that the 60 per cent figure is not arbitrary on our part. It has been a matter of government policy since the early 1970s and was the objective reached in 1973.

OPEN believes that this was an appropriate policy in the 1970s and that it is still an appropriate policy for the government to pursue today.

The Treasurer's most recent announcement that transfer payments to school boards for base operating grants in 1988-89 of the order of 4.5 per cent, which barely compensates for inflation, will simply not change the downward trend of provincial support for education. In fact, we are concerned that this level of additional transfer grant will simply worsen the situation.

I would like to draw your attention to the fact that recognition of the need to return to the 60 per cent level is broadly based. It has come from the report of this committee a year ago and is part of the report of the Macdonald commission. Through these, the recommendation to increase the per pupil grant ceilings is absolutely key.

Ministry data show that in 1986, the most recent year for which summary data are available, public school boards spent, on average, \$632 per elementary pupil over the ceiling amounts and that, for secondary school pupils, the amount was in the order of \$948 over ceiling.

1010

According to ministry estimates for 1987, every public board in the province, without exception, will need to spend beyond recognized expenditure levels. The ability of each school board to provide the full range of services mandated by the province and requested by local communities depends increasingly on the ability of the school boards to increase local taxation.

We would like to point out that, in our view, the government has established an ambitious agenda and has raised public expectations with respect to a number of things, including the tackling of the drop-out rate, improvement to student and adult literacy, the updating of science and technological education, enhancing elementary education and providing child care spaces in new and existing schools. In our view, the government cannot continue to increase the demands on the education system without accepting full fiscal responsibility for decisions made at the provincial level.

I would now like to turn our attention to the issue of sales tax. The problem of the burden on local taxpayers was only worsened in 1982 when the provincial budget removed an exemption for school boards of the seven per cent sales tax on a number of goods and services purchased by school boards. We have listed these on page 6 of our brief. Our information is that during the 1986-87 school year, these tax extensions cost school boards in excess of \$50 million.

I would like to point out that sales taxes are inequitable in that they hit smaller school boards harder, since these school boards often have to purchase services which larger boards provide internally.

Since education is provided through provincial and local taxes, the sales tax is a form of double taxation. We believe the government is giving with one hand and taxing away with the other. You will note that on page 7 of our brief we recommend that the government reinstitute the sales tax exemption for goods and services purchased by school boards.

With regard to the school board capital needs, table II on page 7 of the brief illustrates the emergency that capital needs have presented for all of Ontario school boards. You will note that the shortfall between capital needs and government approvals has grown dramatically. If you examine the table, you will note that in 1986 school board capital needs as requested were in the order of \$540 million. That year government approvals were in the nature of \$200 million, and that left a shortfall of some \$340 million. In 1987 that shortfall has grown to \$800 million, and in 1988 we are expecting that figure will increase to more than \$1 billion.

We believe that a decade of underfunding for building projects has created a large backlog of needs. We should also be aware that the \$1.7

billion requested for 1988 does not include any grant application to reduce class sizes in grades 1 and 2.

An indicator for the capital crisis for school boards is the growth in the use of portables to deal with overcrowding. According to our information, in 1985 there were 4,000 portables in use in the province. This year, we believe, the number has grown to 6,500. School boards have requested funding for 800 additional portables for the 1988-89 school year.

Last year, school boards requested \$1.1 billion for building projects. Of the \$440 million requested by public boards, only \$136 million was approved. We would just like to emphasize that our experience is that there is a genuine capital crisis in school accommodation in the province. In areas of growth we are short of space. Everywhere we suffer from inadequate facilities. We believe that new schools must be built to accommodate the extension of separate schools, to facilitate student population growth in a number of communities and to facilitate the government commitment to reduce class sizes in grades 1 and 2.

The lack of classroom space and unrealistic classroom loading factors have led to unfortunate and volatile confrontations in communities attempting to deal with the implementation of Bill 30. While we recognize that the government has tripled the capital allocation to school boards, the shortfall in meeting the needs is nevertheless considerable.

School boards require capital funding not just to build new schools but also to renovate and repair schools built during the First World War. Of the 4,600 elementary and secondary schools in Ontario, more than 1,000 are over 50 years old. We have outdated science labs, vocational classrooms and business equipment. It makes it impossible for the school system then to develop the programs required to match the vision of the Premier for a technologically advanced Ontario workforce. We believe that capital grants will have to be raised in the 1988 budget to relieve the pressures on present school space and to facilitate a quality learning environment for our students.

With regard to the pooling of assessment, I believe the key to the strength of the public school system in Ontario lies in its access to commercial, industrial and residential property tax at the local level. OPEN is opposed to the concept of pooling commercial and industrial assessment on either a regional or provincial basis. We believe that pooling would not provide new money for education but rather would mean simply a redistribution of local tax revenue.

In our view, the solution to the increasing costs of education is to be found not in a provincial grab of local taxes but in a return to a 60 per cent provincial share of the costs of education. Furthermore, while the extension of the separate school system has turned out to be more costly than initially articulated by the government, it is not appropriate, we believe, to fund the second system at the expense of public elementary and secondary schools. We are seeking a commitment from the government that it will not proceed with proposals to pool commercial and industrial tax assessment.

Finally, on the issue of private school funding, we recognize that this prebudget consultation process is important not only for the discussion of specific fiscal allocations but also for the development of government policy. We would like therefore to take this opportunity to reiterate our position on the question of public funding of private schools. Given the strain on current resources available for education, we do not believe it is the time to consider stretching the educational dollar even further.



The publicly funded school system is society's main vehicle for delivering universal and compulsory education for elementary and secondary students and it is the public school system that is accessible to all Ontario students regardless of race, colour, religion, academic ability or economic status. It is important that the public school system remain funded for all and that it remain publicly accountable to locally elected trustees and to the Ministry of Education.

For those parents who choose not to take advantage of the service of public schools, there should not be financial compensation for exercising this option. Instead of debating whether to further fracture Ontario's resources for education, the government should be focusing on providing the resources required to protect and improve the quality of education in the publicly funded schools.

Our recommendations are provided at the end of the brief for the attention of the members. We would be pleased to answer questions.

Mr. Haggerty: I was concerned about your comments regarding the pooling of assessment; that is, commercial, residential and industrial assessment. Perhaps this is the first time it has been highlighted in briefs submitted to this committee, but I have known some discussions in the past and recommendations by one or two persons within the Ministry of Education. How far advanced are they in this particular area?

Mr. Boswell: I cannot answer for the Ministry of Education.

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Mr. Haggerty: No, but you put it in there. You must be concerned that they are moving in this direction.

Mr. Boswell: The concern arises because of the proposal set out in the past through ministry officials, through ministerial reports and through the Macdonald commission report. On the trustee side, we raised this issue on a number of occasions in the province. Our concern with industrial and commercial assessment is that it does provide for a substantial measure of local autonomy, and we are concerned that the loss of control over commercial and industrial assessment at the local level will provide the government with the funds, certainly, but not the guarantees that go along with that additional source of revenue at the government level.

While we understand the problems that face the government with regard to providing equity among school boards, we believe there has to be, first, a look at the allocation of provincial funds and the grant ceilings for school boards. Those things should happen well in advance of any discussion at all around the loss of commercial-industrial assessment.

Mr. Haggerty: Perhaps committee members are not aware that in the Niagara region there are industries now appealing the market value concept. They have been successful within the courts and there has been a substantially lower assessment and loss of revenue to municipalities, which has a great bearing upon the school system. If we move into this area, with the movement that is out there now with the industries, there is going to be a further loss of school tax base for local municipalities. I share your concern.

Mr. Fleet: On the pooling question, is it the understanding of your group that the pooling now for separate school boards and public school boards is the same, that access to funding now is the same everywhere in the province?



Mr. Boswell: My understanding is that the public school boards have access to the industrial and commercial assessment.

Mr. Fleet: In the same way as the public boards?

Ms. Lafarga: Public boards do.

Mr. Fleet: I am asking if they are exactly the same. Is their access to industrial funding exactly the same?

Mr. Boswell: No, it is not. The answer is no.

Ms. Lafarga: However, they have a much higher rate of grant from the government as a compensating factor for that; so I think that you cannot simplistically look at what their access to commercial and industrial is.

Mr. Fleet: Is there any particular reason, other than historical differences, why they ought not to be treated exactly the same way?

Mr. Boswell: I think the concern of the public school boards is that the loss of that revenue base to public school boards would further result in the public ratepayers of this province being in a position of paying for the extension of separate school funding. There are other ways the provincial government has at hand to provide for equity among school boards. It does that through its equalization program, with ministry grants, and the compensation for separate school boards with small assessment bases is that they receive from the government of Ontario a higher rate of grant for school expenditures within the ceilings.

Mr. Fleet: I hear your answer. I do not know that it answers my question. I am not necessarily advocating that it means slashing funds to the public system. I am just asking if the system that is employed for any board to raise funds ought to be different because one is a traditional system or one is a separate school system. Is there any rationale advanced, other than historical, for what they have done?

Mr. Boswell: I think we stated our concerns.

Ms. Lafarga: I think, too, that most of the time we had major concerns that once access to this money was taken away, we had no guarantees that this would stay in education. It may, in the short run, stay in education but when the provincial government had pressures on it in other areas--for instance, health care or a number of initiatives you are well aware of--that money could be diverted from education. At least, now we have control and we know that that money does go to local education. Because we are elected and accountable to the public for the quality of education in those areas, we have control over the quality of education that is provided.

Mr. Fleet: I want to ask questions as well, about the chart where you dealt with capital expenditures. You have a rising shortfall. Is it not the reality that those capital needs figures are a demonstration of rising expectations on the part of the school boards? The needs were prior to 1987 and, in fact, prior to 1986, but maybe the school boards were not going to get heard by the government of the day.

Ms. Lafarga: I think there was a situation, because certainly I have heard for the last 10 years there has been quite chronic underfunding in the capital area. Basically, school boards were told that the only things that

would be funded would be new pupil places. In effect, for the renovations of their buildings and for the upgrading of their facilities, the majority of school boards were not, in fact, even submitting their requests in those areas.

By and large, those things were not getting done around the province. They were done only on a crisis basis.

Mr. Fleet: That is exactly my point.

Ms. Lafarga: When the government changed we were very grateful for the change in the philosophy. They were prepared to sit down and listen to school boards to establish that there were capital needs in the three areas: the new pupil places, the renovations to the existing stock of school buildings and upgrading to meet the needs of the 1980s in terms of library facilities, upgrading science labs, general purpose rooms and all this type of thing.

I believe the higher amount that school boards have now requested reflects the true needs in 1988. Those figures will only increase because the majority of schools in the province are getting older. That is the reality, plus in the growth areas, the increased need for new pupil places.

Mr. Fleet: I have another question about the quote you have used from the Macdonald commission. At the bottom of page 4, I am not clear exactly whether the quote has perhaps a different meaning to the quote that is used above that from this committee a year ago, because it says, in the quote from the Macdonald commission, "move towards contributing 60 per cent of the approved costs."

My understanding of the funding system is that the province sets out literally an authorized spending level. I think that is what it is called if my memory serves me. So the figures that were bounced around at the time of the election, funding at 45 per cent, 46 per cent, or something in that neighbourhood, represented a percentage of total expenditures by the boards. But when you looked at an authorized spending level, it was something in the 50 to 55 per cent range. I am just trying to find out if you understand this quote to refer to accepting the notion of having an authorized spending level or whether you think the--

Mr. Chairman: Are you talking about the Macdonald commission quote as opposed to our committee quote?

Mr. Fleet: The Macdonald commission's quote.

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Mr. Boswell: The objective of reaching 60 per cent of approved costs could be reached rather easily by the government by simply maintaining the current level of approved costs. That in itself, I suggest, is a matter of public policy, using property taxation to fund provincial initiatives. There is a very important difference between the approved costs and the actual costs of education.

What I would like to point out to the member is that in this year all the public school boards in Ontario are spending considerably in excess of those approved costs. In our view, the approved costs simply have not kept pace with either the demands on the school system or even inflation. It is the suppression of the approved costs of the provincial government that has caused the transfer of so much of the costs of education to local taxation.

Our view is that the 60 per cent level has to more realistically be applied to the overall costs of education in the province and not just those arbitrary figures set by the Minister of Education (Mr. Ward) and the provincial government.

Mr. Chairman: Did you say all of the boards, all 80 boards, are in that position?

Mr. Boswell: That is our understanding.

Mr. Fleet: I guess what I would like to have a sense of is what method, if any, you think the provincial government ought to have for having some limitation on what spending takes place. Is it your position that there ought not to be any limit, that the government has no way of controlling ultimate expenditures by school boards or encouraging an appropriate level of spending? I am not saying the system as it is structured now is the right system. I am trying to find out where you think it ought to be headed. I have seen the recommendations, obviously, and I understand them, but you said the authorized spending level is not really appropriate, at least the current level.

Mr. Boswell: Yes. I think the effect of the authorized spending level has been the reduction that we have pointed out in our charts, a fall from 60 per cent in 1973 or 1974, the early 1970s, to the current level.

We are not opposed to and would support are reasonable controls on government expenditures. Our point is that those controls have simply been unrealistically low. They have caused a massive transfer of the provincial share of educational costs to the local taxpayer. We certainly would be prepared to talk to any member of government about where the appropriate levels of funding should be, but they are certainly not where they are now.

I do not know whether other members of the panel want to reply to that.

Mr. Harris: The concluding question is really a difficult one. Mr. Fleet raises the problems that separate school boards have, which are similar to other very low-assessment boards, for example, in northern Ontario. Yet I have some sympathy for your position on regional pooling, province-wide pooling and system pooling but only on the basis that it puts money in the hands of somebody you really cannot trust to make sure you are going to get it all back.

Mr. Boswell: I think that is the reality.

Mr. Harris: The reality is you will get that money back, but there will be some other money that will not have to flow because it will be easy for the government to say, "Oh, yes, we are putting all that back in." It is what it did not put in because that is there that will be the problem.

If the ceilings were realistic, the pooling question would not be nearly as big a question. Do you agree with that?

Mr. Boswell: I think there is a great deal of truth to that. I cannot speak for all of the members, but certainly when the school boards look at their own local situations and what has happened provincially with regard to local taxation, it is very hard for them to deal with any level of confidence on the question of transfer of local taxation.



If there was confidence in the government that there would be a more appropriate sharing of costs, the school boards might be in a better position to talk about sources of revenue.

Ms. Lafarga: I think school boards will still be opposed to the loss of local autonomy and, I guess, will be feeling a little bit nervous because it means we will have to increase our taxes to support our current level of operation. You must remember that many of those programs are mandated by the ministry, so we do not have a lot of choice in many of the new initiatives, which comes back to your comment too.

I think there would be very deep concern and that you would find local municipalities would be very concerned because, as we went to the local taxpayers for commercial-industrial to offset the loss of that commercial-industrial, I think we would be infringing on their ability to raise taxes locally too.

Mr. Harris: Where are you from?

Ms. Lafarga: I am from Oshawa.

Mr. Harris: I suggest to you Oshawa is a little different from Parry Sound.

Ms. Lafarga: The representative for northern Ontario is here. They are not in favour of dealing outward.

Ms. Kidd: No, we are not in favour of it for the very reasons that have been stated. We want to make sure we have the money. We like local autonomy--certainly in small towns. Some small towns would benefit from pooling. However, we hope there are ways other than pooling.

Mr. Harris: If ceilings were realistic and there was a restoration to 60 per cent funding, the whole pooling question really would not be an issue. You are asking for the money one way or the other. I think separate school boards and some of the poorer boards are saying: "Yes, we want pooling because you are not giving it to us the other way. We have asked year after year." This will be one step better for you. Would you acknowledge that it would be one step better for those boards that are asking for it, and those systems that are asking for it, in the absence of anything else?

Ms. Wright: There already is a weighting factor in place to assist those boards that have a lesser commercial assessment.

Mr. Harris: Up to the ceiling.

Ms. Wright: Unfortunately, yes, but realistically, the ceilings are out of line.

Mr. Harris: That is right. That is exactly what I am saying, if the ceilings were realistic. Can I offer a suggestion? There are those of us in areas where the government pays up to 80 per cent and the local taxpayer 20 per cent. We read in the Toronto papers occasionally how in Toronto the government only pays 10 per cent or 15 per cent. If that is the system you are fighting to maintain, I suggest you do not bellyache about the percentage you get. I just offer that to those of you who are from Metro Toronto. The reason you are at 15 per cent is that you are maintaining a commercial and industrial assessment that the rest of us do not have. I described that for you, that I understand what you are asking for and I understand why.



I understand your position and I am sympathetic with it because I really do believe it would lead to further problems. It would take some pressure off to achieve the funding goals in other areas. But I do not think it is fair for a board getting 12 per cent provincial funding to flag that continually in the papers and at the same time say they want to hang on to their commercial-industrial assessment. I pass that on to those of you to whom it applies.

On capital needs, you are up to \$1.7 billion now. Do you have a break out of how much of that is new projects? I think you had that on a paper somewhere.

Ms. Wright: I think \$1.4 billion is for new accommodation, leaving \$300 million for renovations. Those are the capital needs figures.

Mr. Harris: So the main pressures on capital needs and why they are going up so much are the new pupil places required and growth in the system. You people should know as well as anyone what is happening with child population. Do you have those figures over the last few years? How many children are going to be in your systems in 1988?

Mr. Boswell: I think the experience of the boards, certainly in southern Ontario, is that there generally has been an increase in population, and much of it has been with younger children coming into the system.

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Mr. Harris: You do not have the figures on that.

Mr. Kendall: It started in 1986, and I believe it peaks in 1992, based on the current statistics.

Mr. Harris: On the 60 per cent argument, again I have a little bit of advice for you. There are two examples of arguments you may want to use that are being articulated very well by the Treasurer, and you may want to echo those. One has to do with what percentage the federal government should be providing in transfer payments to the province. The Treasurer is making very eloquent arguments as to why they should be at 50 per cent as opposed to 39 per cent and how they have been declining. You may want to look at some of those arguments and use them, because they are identical to what your problem is.

The other argument he uses that I think you may want to consider too is when they use the ceiling argument, as they did very effectively in the campaign, and say, "Oh, yes, but we are paying 58 per cent of approved," you might ask, as the Treasurer is doing now quite eloquently with the federal government, what it is that the provincial government wants you to cut in your delivery to get your expenditures down to the ceiling. I think if they could identify that for you, they would have a logical argument why that makes sense. Both those arguments just strike me as very strong parallels.

Mr. Boswell: We appreciate the assistance.

Mr. Harris: I am trying to do this in as nonpartisan a way as I can, mind you. I want you to appreciate that.

Mr. Pelissero: You were elected how many years ago?

Mr. Harris: Let me throw the nonpartisanship, if you like, into it. Everybody can argue about economic factors and what happened in the recession, and now it is booming. But the truth of the matter is the parallel existed with the federal Liberal government and a provincial Progressive Conservative government. It is carried on now the other way, and in education it is the same. So this committee can legitimately say both federal governments were wrong or both provincial governments were wrong. Perhaps we should be doing that as we write our report and go forward. It just strikes me the arguments were good.

I want to close--I sure there are others--and say there is nothing in your presentation that surprises me or that is new. I say that by way of congratulating the Ontario Public Education Network on being able to come together from diverse backgrounds in its membership and take very united positions and on the excellent job it did in the campaign of putting the issues forward.

I have seen this material once before. I congratulate you also for carrying this through and not only making those issues known during the election but now calling for accountability to those of us who were elected. I think you have done a good job and I congratulate you for it.

Mr. Boswell: Just one point in reply. As we all understand it, the great majority of local taxpayers in this province do not understand anything at all of transfer payments between governments. What they do understand is the increase in tax bills. When they see their percentage of tax bills compared to municipal governments and see, year after year, the increase in local taxation for education well in advance of inflation, that is what they understand. When we try to explain the situation in transfer payments and so on, that does not carry very far. We are simply looking for some sympathy for that position in concrete action by the current government.

Mr. Morin-Strom: I would like to know if you all agree with the principle that everyone in this province has the right to equal-quality public education regardless of what community he happens to live in?

Mr. Boswell: I do not think there is any question of that. All members of OPEN would support that notion. What does concern us is the manner in which that level of equality is funded. We do not believe it is fair to continue to ask the public ratepayers of this province to fund all the provincial initiatives, including the extension of separate school funding.

Mr. Morin-Strom: Certainly, I do not think there is any quarrel that the government commitment to move to 60 per cent funding has broad public support and, theoretically, political support, although the implementation has not been occurring.

However, I would like to know how you can possibly justify a system in which Metropolitan Toronto is being subsidized by the people of the rest of the province because of the industrial and commercial tax base it has, and why you are so strongly opposed to that tax base being shared on an equitable basis with the communities which, in many cases, are providing the jobs and providing the goods that those corporations which have head offices here in Toronto are using to create their wealth. Through the property tax system, those funds are, to a large degree, funded back into the school systems of the city of Toronto, rather than being distributed on a much more equitable basis across the province. How can you possibly justify that?

Mr. Boswell: I think we have addressed the concerns that we have with the effect of loss of control over commercial-industrial assessment across the province. We support equity of resources to school boards. We do not have a problem with that notion. We believe the provincial government has many more alternatives at hand than do the local school boards to meet that.

I would like to point out that the provincial share of education costs in Toronto is probably closer to zero than it is to 15 or 10 per cent; so the city of Toronto is funding its own education system and the funds raised by the provincial government for education purposes are delivered to the less wealthy of the boards in the province.

I do not think there is any question of it all, except that there are inequities in the system. The inequities are caused in part by the unrealistically low level of the grant ceilings. If we are all spending over the grant ceilings, then the wealthier boards certainly have more ability to provide quality education than do some of the smaller ones. I do not think it should be left entirely to the school boards to find all of the solutions through taxation to the educational issues that are at hand.

Mr. Morin-Strom: Why should the city of Toronto, however, be in the privileged position of being able to have the tax base which enables it to fund without provincial assistance a level and quality of education which is higher than other regions of the province simply because it has access to such a tremendous commercial and industrial base of taxation?

Ms. Lafarga: If I may, the ruling of commercial and industrial will not guarantee that those areas of the province will get more industry. I do not see that that is going to solve the problem.

Mr. Morin-Strom: The system now, though, is inherently unfair. Something has to be done about it.

Ms. Lafarga: Yes. The general legislative grants have to be amended to make the system fairer, and that is what we have been saying throughout the presentation. That is the purpose of the general legislative grants, but they are not being used effectively now.

Mr. Morin-Strom: You do not see a principle problem here in terms of a privileged position for the city of Toronto, regardless of whether we do move the ceilings up to appropriate levels?

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Mr. Albert: May I jump in just to try something? I am from Sudbury; my background is Sudbury. I just want to make that clear since we have comments about Toronto already. Is it not really a matter of how many pockets the money passes through? That is what you are talking about, because rather than coming back through the province to the city of Toronto, in terms of a weighting factor so that Metro Toronto would also receive 80 per cent, 60 per cent or whatever the level is going to be, it has raised that money itself.

What you are targeting is the overexpenditure. That probably permits the board a special position. As we have tried to argue, unfortunately every board in the province, including the city of Toronto, has to spend beyond the recognized ordinary expenditures, but it is really only in that portion that, if there is a special ability, we would have to recognize that.



Mr. Morin-Strom: On a separate subject, the issue of sales tax exemptions, do you support the principle that sales taxes are fairest if they are universal in nature without any exemptions whatsoever and that we compensate public institutions or charities or whatever through a grant process rather than setting up a system where we have demands for one exemption after another and end up with a patchwork system, as we currently have, of taxable and tax-exempt organizations?

Mr. Boswell: On the first point, the Ontario Public Education Network has difficulty with the concept of one level of government taxing another level of government, so we are certainly opposed to the sales tax in principle. The issue of additional costs that have been carried to the school boards through this decision is another issue. We would welcome relief from the effect of the additional taxation, whether it came through exemption or additional grants.

Mr. Chairman: Did you say you were opposed to sales taxes in principle?

Mr. Boswell: No, we are opposed to the principle of one level of government taxing another.

Mr. Kozyra: Addressing the question of portables and the older schools first, your figures indicate 220,000 students, or about 20 per cent of the total population, are now in portables as of this year, and that 1,000 schools, a little higher than 20 per cent, are 50 years or older. So it creates this dilemma in the building situation.

I am wondering, though, whether the reluctance of the government to fund this indicates a feeling that this bulge is going to--you indicated 1992, and the the 20 per cent may jump to 30 or 40 per cent if the present trend continues. There is a feeling that the bulge will go through and that then we will be back to declining enrolment, school shutdowns and so on in some areas. Just how fast do you go into the capital part of building new schools and meeting all those demands and then five years from now find yourself in the other dilemma? Do figures bear that out? Is there some justification for that concern?

Mr. Boswell: I think there will always be isolated cases in the province where schools are declining because of changes in the city or emigration to the outer parts of the city and unequal growth in communities, but the fact is that throughout the province, we believe, the decline in enrolment has largely bottomed out and we are experiencing either stable or increasing enrolments, particularly in southern Ontario. We have many communities now where the entire student population of a school community is housed in portables. It is not very useful to the local trustees, the school boards, to be explaining to parents that we have a concern generally in the province that we might have a bulge and that in a few years we will not need that accommodation. They are concerned about their children, and it is a concern that we share, for the present.

The fact of the age of buildings is simply not going to change. We have these thousands of buildings. They are desperately in need of renovations and upgrading.

Mr. Kozyra: Are they not the ones that are going to be phased out, especially in areas where declining enrolment will still continue to some extent?



Mr. Boswell: Let me speak for my own school board. Simcoe County Board of Education is pretty much an average school board, and in our towns, cities and villages, I suppose the majority of our buildings go back to the 1950s. We are looking at buildings that are generally 30 to 40 years of age. We have many that are older than those, but those 30-year-old buildings are beginning to need a lot of help, whether it is roofing, boilers, renovations to change rooms for computer programs or just what it is. That is the reality of accommodation. We have a lot of kids in portables. We have a lot of buildings that need a lot of money for upgrading. We just cannot fund all our needs through local taxation.

Ms. Cline: If I might add to that too, you were questioning the projected enrolment figures as to whether there would be future declining enrolments. Apart from that whole thing, as we presented in the brief itself, portables are not a new concept. They have been in existence. What the increase in portables now really speaks of is that for years there has been underfunding and it is now at a crisis situation. While you may have accountability to your constituents, we too, as educators and trustee representatives, have a responsibility to that community, to the parents and, above all, to the students we teach.

Mr. Kozyra: Assuming this is a critical situation, I am wondering whether OPEN has considered other methods. Let us also assume that the funding may not be there in the kind of amounts you are looking for because of that total squeeze on the budget. Have you considered alternative methods of facility use? Since this is a drastic situation, there may be drastic measures. Some of this may be naïve. Are you encouraging more sharing between the two boards or are the two systems, public and separate, full and using the portables to the same extent?

The second point, which has implications of societal changes and so on, concerns shifts, a morning shift using the facilities and an evening shift. You could start school at seven and go to one, and then one to eight, doubling up on the use of that. We may not have reached that, but let us say three years from now it is so critical that we are looking at either having half the students in portables or drastic measures like that.

Ms. Lafarga: I would like to address that, because I am from a growth area and we have obviously had to consider these matters. I can tell you that in an elementary school you will find virtually no parental support for shifts, because that creates huge problems for working parents today. It is more acceptable at the secondary level.

But I would like to back up. When we are building new schools today, we are not building hard-core space for the peak enrolment of the school. We are building the school with relocatable classrooms and portable classrooms on them. Even if there were a period when the subdivision matured and we moved back to a normal level, it would take us a long time to get back to that hard-core space. That is the situation.

I think it begs the new initiatives that are taking place that will use up that room, and there have been raised expectations that we will have smaller class sizes. That has been supported by the government and that is an initiative of the government; yet there is no money for that initiative for capital places.

There is the primary education, the junior kindergarten program, which is being supported. Growth boards have no hope of putting that program in

their systems because they do not have space for it. There are a number of initiatives we can move towards. At the same time, we are seeing day care coming into our schools, and that has been putting increasing pressure on space. I think it will be a long time before you see that there will be surplus space available.

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Mr. Kozyra: One final question, more to the secondary level, concerns the Radwanski report. Does this have big dollar implications in increases, or is it mainly on the operations part and does not have dollar implications?

Mr. Albert: I will take a crack at it. It depends if you are going to implement anything in it. It is really a political decision. You and I know education is political.

We have the Shapiro report that sits out there; it has not been implemented. I think the Radwanski report is going to require a considerable amount of debate. With the duplication of public education in this province, which has cost us half a billion dollars so far, and maybe triplication with homogeneous school boards, you are going to be hard pressed to find a lot more dollars for education. I do not know. I think Radwanski is going to need a fair bit of discussion. I do not see it as leaping off our shelves and into our schools in the next year.

Mr. Kozyra: Would you care to comment on the report itself?

Mr. Albert: It is an overview that I think is contradictory. That is my own opinion as an educator. If we implemented Radwanski, we would not reduce drop-outs, I think we would compound the problem. I think our delivery to students would further exacerbate a problem that society recognizes as being critical and which the Premier (Mr. Peterson) recognizes as critical.

I certainly would not want to implement Radwanski in its entirety. I appreciate secondary school teachers in this province are only a part of the debate, but certainly, from our organization's point of view, I think there are some counterproductive recommendations in there regarding the wellbeing of students and how they succeed in our society.

Mr. Chairman: I have a question, but I will not ask it.

Mr. Haggerty: I have a follow-up on my original question about the sharing of the industrial-commercial assessment. I think you are well aware that under the Assessment Act, if the owner is Roman Catholic, he can designate that to that particular school board.

I was thinking back a number of years, when there was historical funding provided by the former government of Ontario to offset the loss of commercial-industrial assessment to the separate schools. That was the Robarts formula. That was supposed to offset a loss there by bringing in additional funding, maybe to grade 11, I think it was--I could be wrong on that--in the separate school system.

Mr. Ferraro: Grade 10.

Mr. Haggerty: Grade 10. Thank you.

If it happens to go that way, maybe you should be looking at a similar formula that would bring in some equity in the funding of the public school system.

The other thing is, someone mentioned the sales tax. I was chairman of the county advisory committee reviewing county government in Ontario, and one of the interesting things and one of the recommendations was that certain counties within southwestern Ontario have a central purchasing centre. The Ontario Hospital Association mentioned it yesterday too, its sharing of purchasing with other government agencies within the municipality, it could be, and it could be the school boards.

Maybe an area the school boards should be looking at is a combination of those. I understand there is quite a bit of saving, even when there are surpluses of funding within one of those municipal structures, such as school boards and so on, so that they can do short-term borrowing from within that at a cheaper rate than they get from the banks.

Mr. Chairman: Do you have a question, Mr. Haggerty? I am just conscious of the time. Perhaps you would cut it off there then.

We appreciate your coming forward and bringing us your views. We are comparing and contrasting them with some of the views we have heard from some of your constituent groups and apparently they are very similar. It is obvious the whole education system is in a state of need of more funding and that will obviously be something we have to consider very carefully when we do our report. The Treasury is listening as well.

Mr. Boswell: Thank you, Mr. Chairman. We are looking for enthusiastic and forthright support from this committee for the concerns raised.

Mr. Chairman: You got it last year.

Perhaps we could have the next delegation come in now, the Council of Ontario Universities. If the council of universities could take a seat, we will continue our proceedings. The brief for the council of universities is exhibit 28 and was distributed on February 15. There is an addendum in the way of some charts that the clerk of the committee is distributing now and there are also some other briefs here.

I see five people here on behalf of the council, five names on our agenda. Who is going to be the spokesperson?

#### COUNCIL OF ONTARIO UNIVERSITIES

Mr. Arthurs: I am the spokesman. My name is Harry Arthurs. I am the chairman of COU and the president of York University.

Mr. Chairman: Perhaps you could introduce those who are with you. Perhaps we could have a little quiet. Order.

Mr. Arthurs: Sitting on my right is Dr. George Pederson, who is the vice-chairman of COU and president of the University of Western Ontario. Starting on my immediate left, Dr. Jane Knox is a colleague member of COU and a professor in the department of psychology at Queen's University. Beside her is Dr. Brian Segal, who is the chairman of our communications committee, president of Ryerson Polytechnical Institute and president-elect of the University of Guelph.



Mr. Ferraro: Hear, hear.

Mr. Arthurs: I knew that would strike a responsive chord. On his left is Dr. Ed Monahan, who is executive director of our council.

Mr. Chairman: Very good. Perhaps you could lead us through your brief and then be open for questions.

Mr. Arthurs: First of all, we would like to thank the committee for this opportunity to speak to you briefly. We are very happy to be here. We know you will not only have read but also thoroughly digested the brief and all of its appendices and data.

Mr. Pelissero: Do you want to go right to questions?

Mr. Arthurs: We will go right to questions. Just in case you have not quite got everything under your belt, we might touch on a few of the high spots. We would like to begin, if we might, by drawing your attention to some crucial historical facts which appear on the first page of the brief. Over the past 10 years, Ontario's universities have accommodated, roughly speaking, 25 per cent more students, produced about 30 per cent more research and managed to accomplish that with an increase in real dollar support from the government of just two per cent.

We think that this is, on the one side, a formidable accomplishment in terms of the effective use of whatever resources were available to us. On the other side, we think these data flag a serious issue which this committee and the government ought to be concerned about.

We are prepared to document, as we have on other occasions, the statement that, relative to other government priorities, higher education has subsided considerably over this same period of time, compared, for example, to the primary and secondary educational sector, whose enrolments have been stable and declining while ours are increasing. The contrast is particularly startling.

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We are a system which is encountering very considerable strains as a result of this much higher level of activity with essentially flat resources. It is a system whose strains will soon be exacerbated because, as many of you will know, last year applications to Ontario's universities grew by about seven per cent. Preliminary indications, which we will speak to in a moment in greater detail, for this year are an increase of equal or greater magnitude. If history continues to repeat itself, if we continue to have these pressures without any compensatory or financial support, we see the way ahead as extremely difficult.

When last year's numbers became obvious, the government did indeed respond. It responded by the creation of what it called an accessibility fund, which undertook to provide additional funding for the new demands upon the system. I think it is perhaps not generally appreciated but very important to underline that the accessibility fund was only guaranteed for the duration of that cohort of students in the system. It was not in addition to the base funding of universities. The undertaking was only that it would remain in place for the duration of that particular additional load that appeared as of September 1987.



It is in that light that we were particularly concerned--and, again, we will speak to this in much greater detail in a moment--at the preliminary indications from Mr. Nixon of what the government was planning for our base support for 1988-89.

We believe, as we indicate on page 2 of our brief, that we have made a well-documented case, quite apart from accessibility funding, for support of 10.9 per cent. That is 6.2 per cent to maintain existing levels of service with respect to our previous enrolment prior to this accessibility funding, one per cent to enhance support for the research infrastructure, and what is, I assure you, in light of historical experience, a very modest 3.7 per cent to initiate a program of qualitative improvement. I stress again that 3.7 per cent is a reflection of the essentially flat funding we experienced while managing to achieve much higher levels of service.

We are committed, as I think all parties are committed and the government is committed, to the service of the people of Ontario, to the enrichment of the individual lives of students, to the enhancement of the economic and cultural life of the province, to a contribution to the economic success of the province. All of those objectives, I think, are held in common by ourselves and the other people in this room. We are genuinely anxious to make our contribution, but we do urge that this committee recognize the great difficulty we have in making that contribution in light of the level of support that, historically, over the past 10 years or so has been experienced by the university system.

My final words are only these: We also recognize that money does not tell the whole story. The familiar phrase about not solving a problem by throwing money at it, we acknowledge, of course, as we acknowledge also that there are other demands on whatever funds are available. All of that is true. And so, we are going to press--you will hear more about this in a moment--not simply a case for greater financial support, but also a case for greater clarity of policy in the post-secondary sector.

We think it is very important that a medium- to long-term policy evolve, that appropriate strategies be devised in support of that policy. As one of my colleagues will tell you in a moment or two, we are doing what we can to identify questions for consideration by government and the public, as well as by our own members, towards the achievement of such a policy and supporting strategies.

With those few opening remarks, I am going to call successively on the members of the delegation to provide you with further detail. First of all, I would like to ask Dr. Knox to address the question of the capital requirements of the university system.

Dr. Knox: I will make a few comments about the physical plant in the Ontario university system.

As I am sure you will appreciate, the quality of the physical environment within which university teaching and research are conducted is of critical importance to the overall success of the university enterprise. Our physical environment today is largely a legacy of the 1960s, when there was, as you know, massive investment in higher education facilities. With few exceptions, over the past decade capital stock has not expanded, nor have adequate sums been spent on maintenance and repair.

Meanwhile, enrolments have continued to rise. For example, in the period 1977 to 1986, enrolment grew by 23 per cent, and space available for teaching and research increased by only 9.3 per cent. If these figures lead you to conclude that we must be close to our capacity, you are right. Of course, as you are aware, enrolment is expected to rise again in 1988-89.

Capital requirements for 1988-89 fall under several headings: major repairs and renovations, alterations, deferred maintenance and new construction. I would like to make comments about each of these, starting with major repairs and renovations.

The combined physical plant of Ontario universities has a total inventory value of \$4.6 billion. The average building age is 23 years. Sound but conservative practices would require an average expenditure of one per cent per year on major repairs and renovations--in other words, \$46 million.

In the current year, some \$20 million is being spent for major repairs and renovations. Although this is an improvement over previous years, this commitment needs to be confirmed, expanded and regularized so that a planned approach can be taken by the universities to the enhancement of teaching and research.

I will turn next to alterations. Even in the most carefully planned buildings, alterations are necessary to respond to programmatic and technological change and to correct imbalances in the existing space type. This requires recurrent funding between 0.5 per cent and 0.62 per cent of building value per annum. The more conservative of those two figures produces an annual requirement for alterations of \$23 million.

The next category of capital requirement is deferred maintenance. Ontario universities are characterized by a huge backlog of deferred maintenance. In my own institution, Queen's, deferred maintenance on one of our buildings has resulted in a critical situation of water seepage into the walls and the electrical system. We are told that with regular maintenance, had that been financially feasible, this situation would not have occurred. As it is, the university is required to borrow \$3 million to correct what is considered to be a disaster of deferred maintenance. In the system as a whole, we estimate that deferred maintenance will require \$106 million over a five-year period, or an annual expenditure of \$21 million.

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Finally, I turn to the need for new construction. We have a critical need to add to the existing space inventories to accommodate growing applicant demand. All of you, I am sure, have seen pictures of this year's students sitting in the aisles of overcrowded lecture theatres. Those pictures have been taken on a number of Ontario campuses, and next year's pictures can only be worse.

But we do not need just new teaching space; we need new research space as well. The Council of Ontario Universities recently released a report on space standards, documenting the need for additional space in the order of 280,000 square metres. This conservative assessment assures that the system will not be overbuilt. Construction costs for such space would be about \$616 million. If we assume that the current conventional practice of seeking private sources of support for about a third of the total new construction costs continues, then a five-year program of new construction would require a minimum of \$411 million in total, or \$82 million per annum, in government support.

We consider the figures I have quoted to you here today to represent the minimum requirements of Ontario universities over a five-year period. They translate into average annual requirements totalling \$172 million. This is a substantial sum. Yet government commitment to such a level of funding is a prerequisite for establishing a sound university physical infrastructure, and a sound university infrastructure is a prerequisite to achieving national pre-eminence and world-class status.

Mr. Arthurs: Both Dr. Knox and I mentioned the question of numbers, and I would now like to call on Dr. Pederson to speak to that particular issue.

Dr. Pederson: It is a pleasure for me to comment. I suppose in a very real sense the comments we are making today, as far as they go, are one of the more sensational parts of what we have to report. The fact that there was last year a fairly dramatic increase in enrolment in our universities throughout the province has already been alluded to. In response to that, the government provided some special ad hoc funding, which Mr. Arthurs referred to.

We thought at the time that was probably it, that we would see a levelling. But what has happened this fall is that there has been an increase of roughly 5,000 in the registration pool, from a little over 48,000 last year to something in excess of 53,000. Those are very dramatic numbers, no matter how you look at them. Just to give you some idea of what that might translate into, that is roughly the equivalent of our incoming freshman class at Western, York, Carleton University, the University of Waterloo or any of the large universities. A sizeable number of students will be qualified to be admitted to the Ontario system.

We in the universities are certainly encouraged by this, given that we are very much committed to the notion that the future social and economic welfare of this province is going to be, in large measure, critically dependent on the qualified manpower we can produce. It is encouraging in that sense. But at the same time it becomes a major concern to us. As nearly as we can tell, on a very cursory review of the data so far, these increases in numbers reflect the increase in retention rates throughout the high school system, and what we see is most encouraging. That is, there are larger numbers of students proposing to come to university from rural areas in the province and larger numbers of women who are interested in coming to university.

So those are, at least for me and I am sure for all of my colleagues, important priority areas, to try to ensure that we get some greater equity among our young people in that regard. But at the same time as we tell you how pleased and excited we are about that, we have to say it creates a fairly serious problem to us as well.

I think the university system will do the very best it can to respond to that, but as has already been suggested, most of us are running terribly close to capacity at the present time. The funding situation in the universities in this province over the past 10 years has meant that we have some fairly serious inadequacies. It really has been a seriously underfunded system.

I hope you can get some sense of appreciation of how really difficult the situation--to start taking additional numbers over and above the ones Mr. Arthurs already referred to--is going to be, given the modest level of real-dollar income that has been approved for the universities in that period of time

I give you my assurance and, I know, the assurance of all of my faculty



colleagues throughout the whole province that the institutions are going to do the very best they can to respond, but it is going to be extremely difficult. I think I would have to say to you there is going to be some deterioration in quality. There is absolutely no way in which you can start taking in those kinds of numbers and continue to offer the same level of university service.

That short-term problem is of concern, but perhaps of even greater concern to us is what the potential looks like for the future. It may very well be, although the data still are not clear, that this is not just some transitory thing, that in fact this is going to be a permanent feature and that we are going to see a great expansion in enrolment throughout the province as far as the university system is concerned.

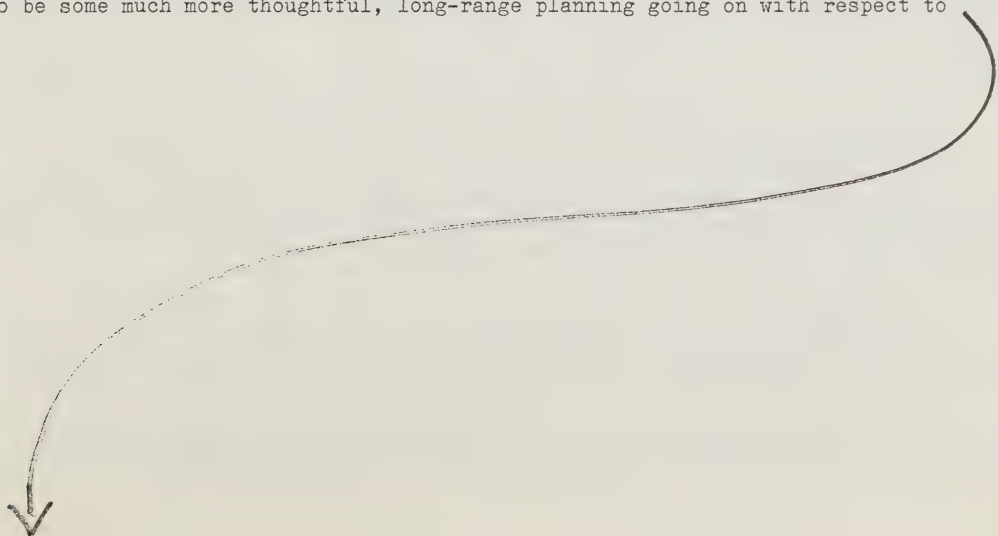
Indeed, if the enrolment increase from 1982 to 1986 were continued through to 1990, we would have an overall increase of some 20 per cent more students in 1990 than we had in 1986. Those are big numbers--very, very large numbers--and tremendously important.

This is to some extent exacerbated by the so-called OSIS phenomenon; that is, the opportunity for students who are currently in high school to complete their high school education one year earlier than was previously the case. So some of it is born there, but the very dramatic increase really comes about as a result of increased participation.

As I said earlier, we think it is tremendously important to Ontario to get an even better and more highly qualified pool of manpower in the province if we want to be competitive with other parts of the world that are well ahead of us. As you will see in the brief, there are a number of states in the United States that started some time ago providing a good deal more in the way of assistance to their university systems. You need only take a look at places like Japan and West Germany and some of our other western developed competitors to see what they are doing with higher education.

If you want to go to less developed nations, you can take a look at Korea, Thailand and places like that, which recognize that the future for them lies in ensuring that they have the kind of manpower that is able to be competitive in this so-called communication revolution we are all experiencing.

The implication of all this, I guess, is to say that we think there has to be some much more thoughtful, long-range planning going on with respect to





the university system. That is a topic someone else is going to address, and I will close off at this point.

Mr. Arthurs: Dr. Segal is going to pick up at exactly the point at which Dr. Pederson left off. He is going to talk about our contribution to this inquiry into long-range planning for the system.

Dr. Segal: Let me start by saying that the question of looking at the 21st century, which is about 12 years away, is one that began nationally in Saskatoon with a national forum on post-secondary education, which was a co-operative effort hosted by the provincial and federal governments.

When you bring 700 Canadians together from every single walk of life and every corner of this country and you ask them to focus on the future of higher education in Canada, you would suspect that you would get an incredible divergence of views about that future. While to some extent that was true at Saskatoon, fundamentally there was a fair bit of consensus on some critical issues. I just want to identify three or four of those issues.

The first is the one that George has just finished discussing, accessibility. Many of us would have argued that the question of accessibility to post-secondary education was one that was slowly waning as an issue in the late 1970s and early 1980s because of the demographic collapse of the particular cohort that we are worried about. In fact, in Saskatoon that issue was the fundamental issue over which there was enormous consensus, whether it was from business, labour or any of the other groups that were represented in Saskatoon.

The concern is that, as this country moves into the 21st century, as we move into a massively increased competitive world, we are going to have to base our attack on the future on the basis of our brain power, and that is going to require substantially more Canadians who have higher education than we have had even in the past.

Therefore, we see the accessibility question in front of us today in Ontario. We see the numbers. None of us would have predicted these numbers. That 18- to 24-year-old cohort is shrinking, but the participation rate is going up, and I think we are delighted to be able to see that, yet somehow we as a province have to come to grips with how we are going to accommodate massive increases in students in the university system over the next five years.

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Saskatoon also focused on the need for a relationship between the college and university sectors. In most provinces, there is very little discussion between those sectors. In addition, in most provinces there is very little discussion between the post-secondary sector and the secondary sector. Again, there is a need for some organized, formalized approach for these elements within the educational system to begin talking in an effective and rational manner in terms of long-term and medium-term requirements.

Again, the issue of accessibility focused, as one would have imagined, on those groups that are currently underrepresented within post-secondary education: our native people, women in certain areas, visible minorities, our disabled people and so on.

Of the three other areas that came out of the national forum, one dealt with research and, again, a major thrust on the need for a much more

harmonious approach in the development of research objectives for this country and the need for the federal granting councils to begin to fund the total costs of research, the need for the Social Sciences Research Council and the Humanities Research Council to get their fair share of the dollars.

One need only look at this question of harmonization of research in the context of our government's announcement in Ontario and the eventual funding of centres of excellence and then a year later a similar federal announcement, without, one would assume, any sense of discussion between both levels of government as to how those funds are going to be allocated in the most effective way so that Canada, as a country of 25 million people, can find a way of overcoming its lack of resources through substantially more harmonious actions on the part of both levels of government.

The question of student aid, the need to more effectively deal with the issue of student aid, to rationalize that question across the country, to make it much more user-friendly and to reduce the massive debt burdens on lower-income students was another issue at Saskatoon.

Finally, the last issue dealt with ones that I have alluded to; that is, the question of federal-provincial co-operation. Saskatoon did one thing, among others. It demonstrated that both levels of government can sponsor an event, a partnership in the area of post-secondary education, without undermining the constitutional authority of the provinces in that area. That is something we have to continue to pursue, but we understand that both levels of government are putting massive funds into the post-secondary educational system.

Just one other quick point. Interestingly enough, the major recommendations that came out of the National Conference on Technology and Innovation that was held in Toronto a month or so ago did not only deal with science and technology but also with higher education. When you bring 200 business people, chief executive officers, together in that national conference and you ask them to tell you how this country can confront the future in terms of its niches within science and technology, the answer is, fundamentally, higher education.

We at the Council of Ontario Universities recognize the need to plan for the future and therefore have established a forum that will address the higher education needs as projected over the medium term. Under the working name Ontario Universities: Into the 21st Century, the project will involve a series of studies and a series of local, regional and province-wide meetings to attempt to bring together people from all walks of life in this province to play some role in shaping the future of higher education.

Essentially, we hope the leadership position taken by the universities, which will focus on the questions of the quality of education, the accessibility of higher education and the need for broad public support for higher education, will be a major theme that will govern the work of the forum and the work of the workshops we plan for the future.

The two major areas that will be focused on will deal with instruction and education. Under instruction and education, the questions of participation and accessibility will be there, including the issue of discussions between the community college sector and the university sector. The second area will deal with the question of research and the need for a focus on research in this province that gets at not only some of the fundamental and basic questions dealing with research but also the long-term funding and the role of the universities in the conduct of advanced research for Ontario and Canada.

The last point which I just want to reiterate, based on Dr. Pederson's remarks, is that we in Canada have to accept that our major competitors, independent of anybody's particular perception about trade agreements--multilateral, bilateral--will be the Americans for the foreseeable future.

When they are pumping increases of 25 to 35 per cent into their university systems in the major states, against which we have to compete, we have to be very nervous. Ultimately, that is an issue that we are going to have to grapple with in Canada because we will fall behind dramatically. That does not mean that we can compete with all US institutions, but we expect the best within our institutions to compete with the best within the American institutions. What we are talking about is the fact that the people who are coming out of those institutions with advanced levels of training and research are going into the very industries against which we have to compete.

We have to have an answer to that question, when you look at the data contained in the document, on the chart on page 7: California, over 30 per cent; Illinois, over 30 per cent; Michigan, over 25 per cent; New York, close to 35 per cent; Ohio, over 35 per cent; Pennsylvania, around 12 per cent; the total United States, close to 18 per cent and Ontario, down to five per cent in constant dollars. Tennessee is left out of this. Other states are left out of it, states that you would not have suspected are pouring large sums of money into post-secondary education; but they are.

Mr. Arthurs: I would like to conclude quite briefly by identifying three sets of tensions which I think this committee might be well advised to consider.

The first is a set of tensions confronting the government. Those tensions are captured, and we had thought that they were brought into balance, by Mr. Sorbara's statement, which we quote on page 1 of our brief and in which the government acknowledged that it had, at one and the same time, to provide additional funding to make it possible for the universities to accommodate this demand that was experienced in 1987, and looks like it will grow in the future, and to sustain and to improve the base operating budgets of the universities, with which they meet their ongoing obligations.

Mr. Sorbara's statement suggested that those two things had been brought somehow into balance. Mr. Nixon's signals of his intentions for next year suggest that balance has not in fact been achieved. In fact, the base budgets of universities are projected to receive support only at the level of 4.5 per cent for next year. As I have indicated, the additional funds provided for accessibility are not base funding. They are, in any event, earmarked for a specific purpose.

Our inflation-based requirements, if nothing more--no improvement in quality, no rectification of past neglect--are running at about 5.6 or 5.7 per cent. We see that simply by holding this to 4.7 per cent, there seems to be a willingness to contemplate further subsidence in the quality of the system. That tension between accessibility and quality, which we had been very happy to hear was resolved by acknowledging that there are two separate problems--both of which must be addressed--it seems to me has been left unresolved as a result of the projection by Mr. Nixon.

The second dilemma or set of tensions is one specifically of concern to this committee, a committee concerned with the economic destiny of the province; that is whether to regard universities as an expenditure problem or



to regard them as a solution, an investment in economic as well as social and cultural development of the province. That, I think, is a very serious question, and we would ask that you confront it directly.

Viewing it simply as an expenditure--money spent, no return--I think does not do justice to the now well-accepted fact, a fact testified to by the experience of the American states that Dr. Segal has mentioned, that we are an investment in economic development as well as social development and cultural development and as well as personal growth. I think that is something this committee has to come to terms with sooner or later.

The third set of tensions is ours, and that is whether we want to look backwards, and each time we speak to you or to other bodies, rehearse what I think is our well-documented sense of grief in the neglect of higher education over a rather prolonged period of time. Do we want to look backward at that development or forward to what is possible, to what would be possible with even a relatively modest signal of support, what would be possible with the encouragement of planning, what would be possible as a result of the genuine ventilation of ideas about what our post-secondary system should look like a dozen years from now as we enter the 21st century?

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Those are dilemmas for the government, for your committee and for ourselves. We know how we resolve our dilemma. Although we have talked about the past, you will notice that we are talking, I hope constructively, also about the future. We are anxious to enter into a working partnership with all the stake holders--with the government, with our students, with our faculty members, with the wide variety of elements in the community, with business and labour and ethnic groups and many others, to have a partnership which will be to the benefit of all of us.

We are committing our own resources as an organization to a serious exploration of future possibilities. That is not easy for us to do, but we are convinced that somewhere in this province there has to be a serious exploration of future possibilities.

We would like to leave you on that note. We are looking very much forward. We want to have a sense that we enjoy the confidence and support of the people of Ontario. We want to have a sense of partnership with them in an enterprise which we think is essential to every aspect of development in the province. On that note, we would like to thank you for your patience.

Mr. Chairman: It has been a very thought-provoking presentation. You have obviously challenged us to look a long way down the road, as well as to just this year. You have provoked a lot of questioners: Mr. Ferraro, Mr. Villeneuve, Mr. Pelissero and Mr. Haggerty.

Mr. Ferraro: I thank the delegation for their presentation. I have a couple of questions. The first one is to you, Mr. Arthurs, dealing with your latter comments vis-à-vis tensions. I am sure every member of this committee has not only tensions to deal with, but tension headaches, when we have delegation after delegation coming in and so forth.

I noted with particular interest the second tension you highlighted. Is it not an investment and are you not an investment in our university education facilities and operating as not a part of the cure as opposed to a part of the



problem? I do not think there is anyone in this room who would disagree that the answer is certainly yes.

In the last week we have received, by very rough counts, over \$10 billion in requests from various sectors. Primary schools, elementary schools, told us they needed so many billions; health people said they needed so many billion and roads people said they needed so many billion. My question to you is, are they any less an investment than universities?

Mr. Arthurs: Our position here is not to knock anyone else's request, obviously, but I would like to answer you in two ways, first of all, by inviting you to look at the historical record. I think we have some charts here which have been distributed on the relative subsidence of a post-secondary education as a public priority. I invite you to contrast the position of post-secondary education, as I said in my opening remarks, with that of primary and secondary education represented by the people who preceded us at this table.

In the face of flat or declining enrolments, we see very significantly escalating investment. We present precisely the opposite picture. If one takes a longer-term view, an historical view, then while you can acknowledge on any given occasion the immediacy of the claim, I think it is up to a committee which is not just looking at things year by year, but in the long term, to say, "All right, we acknowledge that, but let us establish a queue." These are the figures I referred to. Here is a group of people who have been at the back of the queue for a very long time. We just think it is time for a serious investment in post-secondary education at this moment in our history. Let me show you how these two things are connected.

The primary and secondary sectors are about to experience a serious wave of retirements of teachers in the early 1990s. Where are the replacements going to come from? They are only going to come as a result of universities graduating more teachers, so there are going to be terrific demands on us to meet the requirements of that very system. It is in their interest, not just the problem as a whole but very directly in the primary and secondary sectors, that this investment should be made.

Mr. Ferraro: I understand what you are saying and I appreciate that. I do not want to be argumentative, because that is not the purpose at all. I guess what I am trying to impress upon you is that you are saying, "Yes, the teachers are going to come from the universities." Then the people we had in yesterday, the elementary school people, are going to say, "Well, damn it, if you do not give us any money for our elementary and secondary schools, you are not going to have any people to go to university to become teachers." Then the health people are going to say, "If we do not have healthy people, for crying out loud, you are not going to have any teachers anyway." If they can't get to the universities, you are not going to be able to have anybody to worry about. We are talking about degrees now.

Dr. Segal: And if you do not have any food from agriculture, you are not going to be able to eat.

Mr. Ferraro: Let me deal with that question. I appreciate your response. On page 2, you indicate percentages, and I know Dr. Knox was explicit and said that you needed \$172 million for capital essentially. Can you tell me what those percentages amount to in dollars and cents? Do you have those figures? When I see 6.2 per cent, one per cent and 3.7 per cent, it does not mean a hell of a lot to me, quite frankly.

Mr. Arthurs: I wonder if we could call on Edward DesRosiers, the research director of COU, to give you the numbers.

Mr. DesRosiers: We are working with a base expenditure of about \$1.5 billion, so a six per cent increase would be about \$90 million, a one per cent increase about \$15 million, a 3.7 per cent increase about \$55 million, something in that order.

Mr. Ferraro: Thank you. This is the last question I have. I do not want to monopolize the meeting. I think you can argue, depending on which party you are talking to, the degree of support, but I think it is safe to say that most politicians recognize we have an obligation to improve funding at all levels. The trick is trying to cut up the pie.

Having said that--and Dr. Pederson alluded to what has happened basically in the 10 years--if there is any good that has come out of this, certainly in my experience since I went to school, whether we like it or not, it has compelled universities to take initiatives in other areas, whether it is increased private sector involvement, whether it is a coupled with fund-raising, whether it is utilization of resources to a greater degree. Those pressures, I think, have borne some fruit. You indicate in your brief that while that is a reality, it does not look as if it is going to be as healthy perhaps in upcoming years as it has been to this point.

I would appreciate a comment, first, in that regard and, second, with specific indication of the fact that in the United States the private sector is really getting involved to the degree that it is actually going to fund students. Athletics, for example, which interest me significantly, are great fund-raisers. Then you get into the whole thing about scholarships and so forth. I wonder if you could comment in the light of some of the things I have highlighted.

Mr. Arthurs: I am going to ask Dr. Segal to comment on that.

Dr. Segal: Let me just respond. First of all, as to the Canadian scene, one has seen very significant increases in private funding efforts by all of the universities in this province meeting with a fair bit of success. The future is very unpredictable only because, as you know, we are out on the market raising money. So is every single hospital and almost every other charity raising money at the same time.

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Mr. Haggerty: Should you get into bingo?

Dr. Segal: Bingo? We are not there yet. I think the history of corporate giving in Canada is not in any way similar to the practices of corporate giving in the United States. I believe a 1984 survey done by Fortune found US corporations gave a little over \$6 billion to US universities. The comparable figure that year for Canada should therefore have been somewhere in the \$600-million range. I believe the figure for that year was somewhere around \$40 million.

So you get a sense that the history of corporate giving here is not extensive in the same way as it is in the United States. That does not mean every single institution is not doing everything in its power to raise money both from individuals and from the private sector. The pressure on alumni fund-raising is also one which we have seen increased dramatically.

I do think somewhere along the line there is a creative response possible for the government in that area. For example, the government of Alberta established a matching-grant policy associated with donations for chairs and capital, with ceilings put on those policies for alumni giving. There are ways of stimulating further private sector support. The government, through partnership, might be able to play a role there.

Mr. Ferraro: If I can interject, I take that as a given. Indeed, instead of saying, as you say on page 3 of the presentation to the Treasurer, in regard to "new construction costs may no longer be practical, but assuming such outside support"--you qualify it--could one not say that because the US is so far advanced, for all these reasons, it would to some degree apply that either the government has to become more aggressive or the universities themselves have to be more aggressive to get up to the level of the US and also the private sector? Are we saying we are in our infancy here?

Dr. Segal: No, I really think we are not saying that. What we are saying is that there are only so many resources that you can pour in when the culture out there is not as supportive as it would be in the United States. Let me give you a specific example. The University of Chicago has a fund-raising budget of \$5 million a year. They spend \$5 million to \$7 million on fund-raising. They have 70 full-time people working. Their university has 9,000 students and they generate \$70 million a year.

You put those same resources, with the same brains, in any institution of a similar size in this country and you are not going to generate \$70 million. I think there are limits based upon what is out there and the culture that is out there. Let us also remember, when we look at fund-raising in the US, we are still looking at a selected number of very successful universities, and the bulk are not.

As to the question of using athletics to raise money, we can have a great debate about that. There is absolutely no evidence to support the point of view, which you are suggesting, that athletics really raises money in the United States.

Mr. Ferraro: In some universities.

Dr. Segal: In some it may, but I do not think we in this country want to buy into the problems associated with it.

Mr. Chairman: I have to move on because we have only seven or eight minutes. Mr. Villeneuve and Mr. Morin-Strom, and then Mr. Pelissero and Mr. Haggerty, who I know want supplementaries.

Mr. Villeneuve: May I also thank your group for presenting what was to me, not having sat on this committee before, a very enlightening presentation. I was intrigued by Dr. Pederson's statement that your enrolment has gone from 48,000 to 53,000.

Dr. Pederson: Registration applications this year.

Mr. Villeneuve: That includes colleges as well as universities?

Dr. Pederson: No, that is just universities alone.

Mr. Villeneuve: It is a very significant increase.



Dr. Pederson: It is a very significant number. It is large. Frankly, we are very concerned about our capacity to respond to that.

Mr. Villeneuve: I was also pleased to hear that the portion coming from the rural areas of Ontario has increased to a greater degree than those from the traditional, more urban areas. I think that also gives a message.

Dr. Pederson: It is tremendously important because in most provinces in Canada the relationship of rural participation to urban participation in university attendance is about one to two, that is, twice as many urban youngsters go to universities as rural.

Mr. Harris: Bearing in mind the percentage of people who live in--

Dr. Pederson: Yes, just as a percentage of population.

Mr. Villeneuve: There is no really absolute way of putting your finger on the reason for that. You are not saying that possibly their intellect is inferior; it is simply maybe not having the opportunity.

Dr. Pederson: There are probably a lot of different factors. I would be hesitant to start trying to identify them all. They may relate in part simply to peers whom you attend high school with. That is often identified as one of the determining factors in what happens to post-secondary attendance. It may relate to socioeconomic background of the family. In many cases, if they come from lower-income families, there is a general reluctance; if there is no past pattern in the family of attending universities, there is certainly a reluctance to invest as much as it takes to get a university degree.

There would be a lot of different factors. I guess one of the interesting questions you are posing is, why are we not collecting more and better data so we understand that question a bit better?

Mr. Villeneuve: I have also had my office contacted on numerous occasions, particularly from those students in rural areas, because that is the type of area I represent, as to their difficulty in obtaining assistance through the Ontario student assistance program. I know some of the staff have bearing and input on that. I realize this is not quite in your bailiwick; however, it comes through the same ministry and I would certainly encourage you people, through your staff, to provide a little more guidance to some of our rural applicants, because there is a very definite problem there.

It is rather ironic, because a family may own a farm, and in many cases it does, which the father thinks is worth X number of dollars and, in reality, there has been considerable deflation in values. These students will go home and work the summer on that very farm, preventing them from obtaining extracurricular income, which their city cousins may be able to do, and yet they are being refused OSAP assistance.

I think it is most unfair. In your capacity of being well up in some of these organizations, I would encourage you to provide more positive information in that light.

Dr. Allen from the New Democratic Party, Ken Keyes and myself had the privilege of visiting Queen's about a year ago. Dr. Knox, I appreciate some of the comments you made about some of the structures, some of the beautiful old structures that have been allowed to deteriorate. I can appreciate that \$3 million might be only a drop in the bucket in restoring some of these



buildings, and I am with you in that light. Compare the cost on an annual basis of keeping a criminal incarcerated to the cost of operating our universities. I do not know whether that is a good yardstick or not, but it is one that was used at that time because Mr. Keyes was then Minister of Correctional Services and the city of Kingston has both a very high profile university and a rather high profile institution for incarceration.

Dr. Pederson: If you look at the graph, you will see that penal institutions have been doing better financially than we have as well.

Mr. Pelissero: We have more students who go to jail.

Mr. Chairman: Do you have a question now, Mr. Villeneuve?

Mr. Villeneuve: My question basically relates back to the priorities that universities have regarding capital expenditures to meet the rapidly increasing enrolment that you have. Can you possibly tell me where you stand on that?

Mr. Arthurs: I think our numbers indicate rough parity of treatment. We have a terrific backlog of maintenance. We also have the backlog of accommodation, and that backlog is being exacerbated by these new demands, so our numbers come out about even on both sides.

Mr. Villeneuve: Of course, you need facilities when the students are increasing in numbers, so I guess, as you say, they would go parallel.

Dr. Pederson: I could just add that for many of us student housing is a fairly serious problem. The city of London has recently passed a bylaw preventing more than four students living in a single residence, and that is creating havoc for us and for the community college that is nearby. We are looking forward to the eventual decision of the current government as to how it is going to handle that student housing issue.

Mr. Chairman: Are you recommending we prevent that sort of bylaw?

Dr. Pederson: I was not necessarily saying that. I can understand that for some neighbourhoods it creates its own share of problems, so I am not sure that we--I do not think the bylaw is enforceable, personally. It has a grandfather in it as well, so I am not quite sure they are going to do very much with it. But what it does among our student bodies in various cities and towns in Ontario, of course, is create a great deal of tension on their part as to how they are going to handle that question of housing. We can only accommodate a small proportion of our student body. Most of the incoming class gets a crack at housing and that is it. It is a "one year and you are out" sort of thing, and you have to go find your own.

Mr. Morin-Strom: I want to thank you for your presentation and certainly indicate my support and concern about levels of university funding here in Ontario. I suppose some of my interest comes from some of my background. I did all my schooling not at your institutions but at two rather prestigious ones in Massachusetts.

I would like to ask about the distinction between your function as teaching institutions as opposed to your function as research institutions, both of which obviously go hand in hand and build on each other. However, I would like to know if you could give us some comments on our relative competitiveness.

You have certainly talked about your problems in terms of funding, in terms of where our competitiveness may be in the future compared to American schools. Certainly, states like Massachusetts have been very successful, I think, and tremendous economic recovery is the result of the strength of the university institutions, in particular the research strengths of the institutions there.

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Is it the case that our funding is simply on an enrolment basis? Of course there are factors for what types of programs they are and the level of the programs, but is there enough attention to funding for research? I wonder if you could compare us, as to our relative competitiveness as teaching institutions, as opposed to research institutions, with the other schools in other provinces or states in the United States?

Mr. Arthurs: We could make several points. Perhaps I could begin and others of my colleagues could join in.

First of all, as you probably know, a lot of the direct funding of research is by federally funded research councils. The picture over the last period of years has been one of extreme restraint for those federally-funded councils. Very recently there has been a shift on their part towards the requirement of matching funds generated through industrial contracts, to at least encourage the universities to go in that direction of funding research through contractual arrangements which will generate matching funds given by these councils. Basically, the picture has been a gloomy one from the federal level.

At the provincial level, funding is basically distributed on the bases of the number of students you have enrolled. About a year ago, the government established a research infrastructure fund of quite modest proportions--\$25 million is certainly very much welcomed, but it is not a huge fund--for the support of research infrastructure. One must recognize that universities do not just get a discrete sum of money for a particular project and that is all there is to it. There are ongoing costs of facilities, staff, libraries, equipment and so on, which cannot be accommodated within a given project. That fund is very welcome, but we think it could stand to be a whole lot larger than it is.

Dr. Segal: Some indicators--and I think these are not easy indicators to come by. The general sense is that the major research universities within the United States would be looking at a student-faculty ratio in the vicinity of eight or nine to one. The British universities went on a rampage when they faced student-faculty ratios that were moving above 10 to one. The Ontario system today is somewhere between 21 and 22 to one.

Dr. Pederson: With respect to research funding, I do not think you can make any comparisons that you would be pleased about. That is to say, if you identify the more outstanding American institutions or other outstanding universities anywhere else in the world, you would find that the level of support that they have received for their research activities is just dramatically different than anything else that we have.

As Harry has already indicated, the major sources of funding for universities in Canada come from the three granting councils, one dealing with the health sciences, one with the natural sciences and engineering and the

other with the social sciences and humanities. Their budgets have been frozen, as a matter of fact, with the exception of this additional matching money, which none of us is particularly enthused about. We simply think that the federal government has some unusual priorities at the present time with respect to research and development activities, particularly in view of the platform it ran on in order to get elected. I think it is genuinely quite unfortunate.

Your other point, I think, is an important one. I do not think you can make any distinction between teaching and research in one sense. At least from my perspective, that is one long continuum. I will illustrate it by just a little anecdote of riding one day, when I worked at the University of Chicago, on a train. I sat next to a gentleman who obviously looked a bit like a professor. He was marking papers or doing something similar. I asked him if he worked at the University of Chicago, and then I said, "What do you do?" He said, "I teach." I said, "What do you teach?" He said, "I teach what I profess." I said, "What do you profess?" I was going along with the game. He said, "I profess what I know, which is my research."

That is the essence of a university, and that is what makes universities quite distinctive from any other part of the educational system. That is the part where perhaps we do not do as well as we should in explaining what people do in the research function, but it is the essence of the university in the final analysis.

Mr. Morin-Strom: I wonder if you could give us any kinds of comparisons in terms of support. You have indicated disappointment, I think, with federal research funding. In the United States, are they getting much higher levels of federal research money, or is it industry that is making the difference?

Mr. Segal: The answer is yes, they are getting much higher levels of federal support directly from their granting councils, to say nothing of the kind of funds that flow through the defence establishment in the United States.

We actually do have where we sit in terms of research allocation and research funding as a percentage of gross national product in Canada related to other Organization for Economic Co-operation and Development countries, and I believe we are very low down. I do not have the number in front of me, but we can get that to you. There are charts that have been done, both by the Science Council of Canada and by other organizations that position us. We are, as you would have expected, below West Germany, Japan, the United States, the United Kingdom, Sweden, France and so on.

Dr. Pederson: I think it is important to just pick up on Mr. Ferraro's earlier comments about who ought to get priorities. Clearly the educational system in total, as I see it, is going to be critical to the future wellbeing of the province, so to start saying, "Should we give it here, there or elsewhere?" is probably not the direct question. The more cogent one surely is that education in general should be receiving high-level support.

From my perspective--and I would like to think perhaps we have persuaded you to think about this--this is one of the most important issues in front of this province at the present time. If you just want to look at economics alone, that is obviously not what education is about exclusively, but let us just think about that for a moment.



If you look at the analyses that have been done by outstanding economists like Ted Schultz and others and look at the question of investment in human capital, there is an absolute and totally positive correlation between level of education and standard of living, however defined. It does not matter what nation in the world you want to pick on, that has been shown for years and years. It goes way back to Adam Smith's time that this is demonstrable.

That investment in people is going to be even more critical than it has ever been at any time in the past. We are no longer a resource-driven economy, not that Ontario has necessarily been one for some period of time, but most of Canada still is. We have been very slow to recognize the dramatic change that is going on in the world economy. That change is going to be critically dependent on the qualified manpower you have if you want to be competitive. If you do not have that manpower, I do not care what else you do, you are simply not going to be able to be a part of the game.

Mr. Chairman: Very quickly, Mr. Haggerty and Mr. Harris.

Mr. Haggerty: If you had allowed me the supplementary before, I would not be bothered with it.

I was just looking at page 6 of your brief, and following Mr. Ferraro's comments, I thought it was not a fair assessment of the appropriations per student. You have talked about the average in the United States being 20 per cent and it is five per cent here in Ontario, and there have been some discussions of the involvement of the private sector. But in the United States they also have federal tax laws that permit five per cent, I think it is, of a corporation's taxes can be allocated for any charitable organization, and universities are ones that a number of corporations apply it to.

Dr. Monahan: These are all state appropriations to the relevant state university system. They do not include contributions from the private sector, either personal or corporate. They are not in those data at all.

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Mr. Haggerty: Getting back to the question about the federal tax laws which permit corporations that have generated huge profits to give five per cent of it--

Dr. Arthurs: The effect of that is to magnify the difference between Ontario and these other jurisdictions. That is simply public money going to public institutions. You understand that if you add to it a much greater level of federal support--this is only state funds--and a much higher level of private sector support, that simply magnifies the difference?

Mr. Chairman: When you talk about the tax laws being of advantage to a contributor, you are perhaps speaking to Dr. Segal's criticism of our donations.

Dr. Segal: Yes. Let us not go too far down that road. We would therefore be assuming that our current corporations have used the maximum within current allowable taxation limits to make their donations. They have not. In other words, they have a lot of room to go before they worry about that five per cent.



Dr. Pederson: There are only about 600 major corporations in Canada that are big givers.

Mr. Haggerty: But there are many financial institutions out there that have not paid any provincial corporation taxes since 1972.

Mr. Mackenzie: The real problem is the redistribution question.

Dr. Pederson: Your point is well taken. The tax laws in the US do make it much more advantageous to corporations and individuals to contribute.

Mr. Harris: I realize the time, and I will try to go fast. I am intrigued with, on page 3: "The record high figures reflect an increase in the secondary school retention rate, particularly in the rural school districts and among females. The province may be justifiably proud."

On page 4, it says, "If the increased retention rates in secondary school mean a permanent pressure for expanded enrolment, not a transitory bulge." Also on page 4, "If the secondary school retention rate continues to increase as it has done between 1982 and 1986, demand for admission."

We just received a report slamming the bejabbers out of the secondary school system. It says the drop-out rate is atrocious and cannot be allowed to continue at that rate, and yet you are telling us it is wonderful, the province should be proud, is this not great? I understand it is causing you problems, but how do we rationalize those two?

Dr. Monahan: If I may comment on it, the data we have been using on secondary school enrolment does support basically the conclusion of Mr. Radwanski that there is a 30 per cent drop-out rate in Ontario secondary schools. Our point is that only a few years ago it was worse. There has been a substantial improvement, and we are saying the probability is there will be further improvement. This is an opportunity, but the resource implications for our institutions are very substantial.

Mr. Harris: I do not want to dwell on it, and I realize it is the implications that has on you, but it may be interesting to analyse why that is the case, why we are being more successful. I am not sure his report conclusions address that.

Dr. Segal: Just on that, we may also be seeing what is a more frightening development, a real bifurcation where you have two categories of folks in the high schools, those who just ain't making it and those who are making it well. That is very scary to see.

Dr. Pederson: I suspect what is happening as well is just a much greater awareness, a general recognition on the part of the public in general and certainly among young people in high schools, who are pretty good at smelling out what the market looks like, that education is becoming much more critical to them than it was a few years ago.

Mr. Harris: OK. I am going to get to that at the end. It comes in with the funding, I believe.

Also on page 4, "The Council of Ontario Universities has begun work on a forum that will address the higher education needs of the province as projected over the next two decades."

As I understand it, your society is going to look at, what does Ontario as a society need out of the university system? There is an input into this system as well that many question whether is being looked at properly. I want to get to this because it impacts on your enrolment, as to the quality of student coming in, the quality you are getting.

We hear, usually weekly in some media forum, some professor or another say the quality of the student is not acceptable. There are also some who will argue that during the periods of declining enrolments and students coming out of high schools, the standards declined in the universities collectively and so that enrolment stayed up.

Is there any attempt to look at the requirements of the students coming into the university education system in conjunction with this study, as opposed to just the other end as to what we really require?

Dr. Segal: I would think that the answer to the question is yes and part of that is that, under the rubric of accessibility, we have had since the mid-1960s in this province a policy which has basically said that any graduating grade 13 student with 60 per cent or more shall find a spot in some program in some university, not necessarily the university or program of his choice.

Mr. Harris: Right.

Dr. Segal: That has been policy. One of the issues that I think we have to look at is whether that is a continuing viable option. Is a 60 per cent on Ontario academic courses a viable option any longer? Should it be 65 per cent or 70 per cent? Is that a measure that has to be re-evaluated somewhere along the line?

I think, in addition to that, one has to take a look at what are the strengths of the high school students who come into university and what are some of the weaknesses and the kinds of compensatory bridging programs that are required to make up for some of those differences and so on.

The answer to your question is yes, we have to take a look at that number.

Mr. Harris: Is there validity to the allegation that either the 60 per cent requirement of the universities changes when there are not enough 60 per centers to fill up the spots or the 60 per cent of 15 years ago is not the same 60 per cent of today? The data really are highly suspicious that one of those two things occurs.

Dr. Segal: It could well be the latter.

Dr. Monahan: The latter issue is arguable, since at the present time you do not have any standardized--

Mr. Harris: Yes, because that is somebody else doing it, not the university.

Dr. Monahan: Not necessarily, but with respect to the former statement, the minimum average of 60 per cent on the relevant number of required grade 13 subjects has not changed in 30 years. What has changed, because of enrolment pressures, is that in given academic programs in given universities the admission rate has gone up well above 60 per cent. Depending

on pressure for places, it might have moved from 80 down to 75, or from 75 down to 72, but the 60 per cent has remained a uniform minimum requirement.

Mr. Arthurs: I think it would be fair to say too, Mr. Harris, that fewer and fewer students who are bound towards the minimum are finding places. I think that is clearly the case.

Mr. Harris: I guess all I am saying is that we should be looking too at whether they should be finding places.

Mr. Arthurs: That is certainly an issue we are going to be looking at.

Mr. Harris: I have two other things, and I will try and be quick. On career progress, I only want to comment that I hope 15 or 20 years from now--I see in your brief it says you do not need a per cent and a half because the age demographics have changed.

Everybody wants zero rating on the new federal tax proposal. What is it that you are asking for here, this zero rating; what aspects of your operation?

Dr. Segal: Essentially what we are looking at is that the business transfer tax that is being looked at by the federal government be neutral as it affects the universities.

Mr. Harris: So what part of--

Dr. Segal: Any of the--

Mr. Harris: You do consider it a business, though, do you?

Dr. Segal: But all of the goods and the services that we buy, which will be coming through the value added tax stream, would have an enormous cost to us.

Mr. Harris: So it is really an exemption from sales tax, federal or provincial, for your goods that you are talking about.

Dr. Segal: Yes.

Interjection: That is right.

Mr. Harris: You are not exploring the areas where universities compete with the private sector.

Dr. Monahan: We would not expect to be privileged in that area.

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Mr. Harris: I am cognizant of the time restraints, but I think I should raise these. You have not talked about who should fund one's university education; you have said you need more money. We have touched briefly on how much the private sector or--we have talked about that, we have not talked about the students. We have not talked about that ratio of the tuition versus government versus the private sector.

Let me understand first: Does the private sector, other than the research end, fund any operating costs? It is only capital usually.



Dr. Pederson: It is typically only capital or in kind.

Dr. Segal: There is some operating money through academic chairs but it is very minimal.

Mr. Harris: Yes. The number of requests that we have has been alluded to, and I think that we perhaps are going to have to become far more creative in how we finance many things that government finances.

Let me ask you, if we are going to get the private sector involved--and I want to start with that end--whether we can start to define to the private sector the value of that university graduate. Perhaps when a graduate is hired, the employer should be paying a fee because it is at that point he cannot arguably say, "I am not getting a benefit."

Mr. Arthurs: We hope that our study will bring to the attention of all of the stakeholders the importance of support. That includes ourselves as institutions and our faculties; it includes our students, it includes the private sector and, we hope, the government as well. All of those will have to contribute in kind or in money in order to bring the system up to standard.

Mr. Harris: But that way may be the only way the private sector is going to get involved in an appreciable way.

Let me ask then about the student. The benefit to the student, and I do not have any current studies in front of me, talks about how much a university graduate makes more than a nonuniversity graduate. What is the ratio now of tuition to government funding?

Mr. Arthurs: It ranges from university to university depending on the mix of students and the operation of the formula; it varies from about 15 or 16 per cent up to 25 or 26 per cent.

Mr. Harris: Depending on the program?

Mr. Arthurs: Yes.

Dr. Pederson: The question of tuition is always a very thorny one and it is obviously, in this province at least, strictly a matter of public policy because whatever increases we are allowed to pass along to students as dictated by government, it normally is just whatever the grant increase is; so it is limited to that.

You can look around the world and you can find every possibility you would like. You can look at the UK, Australia or West Germany, where there is no cost directly to the individual as far as tuition is concerned, and on the other end, I suppose, you could look at Harvard or Stanford with their \$15,000-a-year tuitions. That is really, in the final analysis, a judgement call as to how much you think the individual should contribute.

There is no question at all that there are private benefits as well as social benefits that come out of a university degree. So I suppose what we argue in Canada is that because of those private benefits, the individual should contribute a certain amount towards his or her particular education.

It seems to me the level of tuition is not the issue. The issue is much more fundamental than that; and that is, is there anyone being deprived from receiving the service who should and could benefit from the service? If that



is the case, then it seems to me the level of tuition is trivial provided that you have a well-developed and very well administered system of financial aid. Now, that is a tall order. It is easy to say but not easy--

Mr. Harris: Are you advocating that?

Dr. Pederson: That would be my own particular position.

Mr. Harris: What you are advocating is that there not be universal free university education in Ontario?

Dr. Pederson: No, that is--

Dr. Segal: Let me just make a point. I think that, within the Council of Ontario Universities, the majority of our members would advocate a gradual increase in tuition fees as long as there is an equal safety net so that no one is deprived of a university education based on a lack of income and that in fact, at the same time, the debt load on students, particularly low-income students, be decreased. That would be the general position, I would think.

Some of us feel fairly strongly about the fact that it is substantially less expensive to put your kid in university than it is in day care in Ontario today. Some of us--in fact, a number of institutions--went some distance to find some creative ways of raising fees without, by the way, massive hostility from our students, only to be rolled back.

I think there is that view, but successive governments in this province have really never been prepared to grapple with that issue.

Mr. Harris: That is right, but that is the government's problem. It is not your problem where the money comes from, but it is our problem where the money comes from. And I would agree with you that there has to be that safety net that ensures what, financially, is not there.

Dr. Pederson: That is the critical dimension.

Mr. Harris: Have you thought about the payback of the government assistance in that area being relative to what happens to the student after as opposed to all the criteria on the way in? If somebody graduates owing \$20,000 and never does get the big job that he thought he would get, I would argue that he should not pay back any; but the guy who lands a \$100,000 job right away should pay it all back.

Dr. Pederson: That scheme was tried by Yale. They just found the administration of it--

Mr. Harris: The administration of it is more difficult.

Dr. Pederson: The argument is that you get it back through income tax, either provincial or federal, if the person is successful, so why do you not fund it that way?

Mr. Harris: You do not if he goes to the States.

Dr. Pederson: No, that is true.

Mr. Harris: Or if he goes to Alberta.

Dr. Pederson: Back to the question of tuition: I just use myself as an example. We have two children. Both of them, to our good fortune, went to university. But at the time they went I was clearly in a position where I could have provided more in the way of tuition support. In fact, it can be argued, and indeed is argued by economists, that what happens is that you are providing a subvention from public funds to middle-income and upper-income families because that is the large group that attends university.

Mr. Harris: I have one little quickie. Is there something that legislatively prevents you, when somebody registers for university, from indicating on that form what the true cost of that program is?

Dr. Pederson: No.

Mr. Harris: Do you not feel that if you would do that, parents, alumni, industries and individuals would appreciate a little more of what is happening? I will tell you why. Nothing bothers me more than to hear a constituent in my office saying: "Harry's kid down the street just got an OSAP grant and student aid. I am paying the full shot for my kid, \$1,000." My first argument is, "You are not paying the full shot."

Dr. Pederson: If everybody saw that on the form, people might be so interested in this terrific bargain that even more of them would want to come. You never know.

Mr. Chairman: I think I will have to call a halt to this. Obviously, you have opened up a lot of avenues. We have to consider some of them, maybe not direct ones that can be addressed in our budget report but, nevertheless, important ones. We appreciate the input you have had. Thank you very much.

Mr. Arthurs: Thank you very much.

Mr. Chairman: Members of the committee, you have in front of you an amendment by Mr. McClellan of his terms of reference, basically changing legal "opinions" to "assessments." If I do not hear any concerns, that will form the basis of our negotiations.

This afternoon at five o'clock we will be dealing with Miss Anderson, directing her as to how we wish her to prepare for our writing our report on Wednesday and Thursday of next week.

I should inform you that we have two groups. One is the Ontario Federation of Students, which might be interesting in view of what we have just heard. The other is a group called the Completion Office, Separate Schools. We have heard quite a bit from public schools. These groups have given us submissions in the last few days. We do not have any time in our schedule. You may want to deal with that at five o'clock this afternoon too, how you want to deal with those two groups.

The committee recessed at 12:30 p.m.



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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

PREBUDGET CONSULTATION AND TAX REFORM

THURSDAY, FEBRUARY 18, 1988

Afternoon Sitting





STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitution:

Harris, Michael D. (Nipissing PC) for Mr. McCague

Clerk: Carrozza, Franco

Staff:

Anderson, Anne, Research Officer, Legislative Research Service

Witnesses:

From the Retail Council of Canada:

McKichan, Alasdair J., President

Hall, Edward, Chairman, Taxation Committee; Taxation Manager, Hudson's Bay Co.

Doucet, Gerald, Consultant

Westlake, Robert, Comptroller, Federal and Provincial Taxes, Sears Canada Inc.

From the Citizens for Public Justice:

Carrick, Wayne, Secretary of Executive Committee, Ontario Division

Vandezande, Gerald, Public Affairs Director

Olthuis, John, Legal Adviser and Research Director

From the Ontario Confederation of University Faculty Associations:

Starkey, Dr. John, President

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, February 18, 1988

The committee resumed at 2:10 p.m. in room 228.

PREBUDGET CONSULTATION AND TAX REFORM  
(continued)

Mr. Chairman: Perhaps we can get started and put it on the record that the clerk endorses my getting started without the official opposition being here.

We welcome the Retail Council of Canada, Alasdair J. McKichan, president. You have a number of people with you so perhaps you can introduce them. The members of the committee have a brief in front of them, which is in fact an amendment of an earlier brief, but I think it may be the only one you have at the moment so that is the one we should be paying attention to.

RETAIL COUNCIL OF CANADA

Mr. McKichan: I will introduce my colleagues. On my immediate left is Edward Hall, who is the taxation manager of the Hudson's Bay Co. and, perhaps in this context even more significantly, chairman of the retail council's taxation committee. On my right is Isabel Meharry, who is manager of corporate taxation of Canadian Tire Corp. On my far left is Robert Westlake, comptroller of federal and provincial taxes of Sears Canada Inc. On his left is Rick Mavrinac, vice-president of taxation of Loblaw Companies Ltd. On my far right is Gerald Doucet, who was recently senior vice-president of the retail council and is now a special adviser to the council.

Mr. McKichan: We are speaking today not only on behalf of our direct members but also for our various associates, including the important Canadian Council of Grocery Distributors, which has in its membership all the major food wholesale and retail companies. Mr. Mavrinac is our expert in food matters.

I will briefly summarize the content of our submission rather than read it verbatim. As members of the committee know, this is a significant period in the taxation world with the incidence of the federal reforms and the leadup periods to what at least this organization hopes will culminate in the Canada-US free trade agreement. We spoke to you on that subject in another context.

With respect to the federal tax reform measures which relate to personal and corporate tax, we have noted the concerns of the Treasurer (Mr. R. F. Nixon) about the impact on Ontario revenues. It is our belief that the federal proposals overall were a useful step in achieving the simplification which is so much an objective of all those involved in the taxpaying process, and probably also the tax collection process, and also in achieving some balance in the system.

It is the belief of our people that the measures will give to the economy a higher base of income, even on existing Ontario tax rates, which could lead to gains in revenue for the province. We know the arithmetic on a

straight basis in relation to transfer payments, reductions, and so on, but we are hopeful that there will be a positive tax flow for the Ontario Treasury.

On this basis we hope that Ontario will, while monitoring the situation closely, be able to avoid any increase in its own rates at this time. It certainly would be most helpful for consumer confidence if this could be the situation. We believe that the expected slight increase in the deficit, while regrettable, is not in itself enough to induce a significant increase in tax because of the implications that would have on consumer confidence.

As far as the current situation is concerned, provided there are no unexpected upsets, our members are relatively confident about the mood of consumers. The stock market crash did not seem to have any significant, even noticeable, effect on consumer demand. Probably the one industry section which is not looking at the current situation with as much equanimity happens to be the ladies' fashion section, which did not have a good year last year and is not experiencing a good opening to this year. But we believe that is related to factors other than economic. It is related to the state of the consumer attitude towards current fashions, which is not very confident.

However, in all the areas connected with housing we are expecting, at least through the late winter and spring, perpetuation of last year's excellent experience because we are still having a lot of houses coming on stream which were started last year and are now approaching completion and, as always, that has a very positive effect on all sectors like furniture, floor coverings, and so on, that are associated with housing.

Nor do we think any projected decrease in the automotive-connected employment, which is essentially of a cyclical nature, should be tremendously serious because of the generally buoyant employment conditions in southern Ontario. We are, of course, concerned in relation to interest rates, but provided the dollar stays around its present level and provided we do not get a significant increase in the interest rates, the trade is relatively positive.

We do want to make some specific comments on the whole subject of sales tax reform. Our trade, just like the manufacturing trade, is supportive of a reform of the federal sales tax base. We recognize all the deficiencies in the manufacturers' sales tax. We are pleased with the federal Minister of Finance's announcements regarding the correction of some of the anomalies which have been introduced to cure other anomalies, in moving some segments of the tax base to the wholesale level, and there were yet more which have been planned to come. We were glad to see these unwound because, in our view, they created more distortions than they cured.

We were also quite supportive of the new basis for calculating tax at the manufacturers' level, equalizing the different levels of marketing. Although that introduces quite a substantial increase in tax revenues, which of course will be positive for the province eventually in its own tax, our members felt that on the whole that was a reasonable price to pay for the achievement of the greater equity which is produced as a result. It is not often that taxpayers are acquiescent about any increase in taxes, but the anomalies were so extreme that they feel that even an increase in taxes of quite significant proportions was a price worth paying for that result.

However, we do want to see the whole commodity tax base reformed. We want to see the activity accounted for by the service sector brought within the base to permit an overall lowering and, even more significantly, we do want to see a conjunction of the federal and provincial collection systems

which would enormously simplify the whole tax collection procedures and would remove a great many more anomalies in such things as cross-border sales, which we discussed with this committee before. It is, therefore, our hope that Ontario will not be a stumbling block among the provinces to see that brought about.

We recognize that the federal government does not need universal approval of all the provinces. In our estimation, if we had the population represented by about 75 per cent of the national population, it would still be a feasible undertaking. Obviously, to achieve that, you have to have Ontario, and we are hopeful that the provincial Treasury will be able to resolve whatever concerns it has in relation to a new common base to achieve that.

Of the forms of tax under a combined basis, we are strongly supportive of a national sales tax. To attempt any of the other variations, to our minds, again induces unnecessary complexities. It is absolutely impossible to contemplate a two-stage collection of tax at the retail level, on the one hand; on the other, we believe that the tax should be exposed, should be known to the consumer and should not take the form of a virtual turnover tax, which is the end result of applying general sales tax. The value added tax, in our view, while somewhat more acceptable, does have the defects of considerable complexities in collection.

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As far as the timing and phase-in of that tax is concerned, we believe that strategic decisions should be taken as soon as this is possible. We then need an adequate phase-in period of considerable duration, we believe, of over a year. Not only is it to be a terrific educational process at every level of collection, not to mention within the government departments, but also retailers have to take account of the tax with long lead-in periods in the case of catalogue sales and in the case of many preplanned advertising and promotional events which go to press often many months before the actual sales event. In the case of catalogues, it is over a year.

Moving on to a few other miscellaneous items, we address the question of taxes paid on tobacco products, which are collected at the wholesale level but where the actual products are not sold by the retailer either because of loss or damage. We believe there is considerable inequity in requiring the retailer to pay that tax regardless, even though he has lost the value of the product. We argue in many cases that the demand will not be diminished, particularly if the loss is because of damage to the product, because the same amount of products will still be sold in the market.

The Treasurer referred to the review of a possible corporate tax collection agreement with the federal government. There are compliance benefits for business in such an agreement, and we support that undertaking. We are hopeful he may be able to report success on that matter in the budget.

We have had discussions, as I mentioned, with the Ministry of Revenue on the question of cross-border transactions which are a continuing irritation to retailers and constitute a considerable loss of business to those who are involved in that situation. We hope, again, that can be addressed on an interim basis before it is finally taken care of by the reformed sales tax.

The federal Minister of Finance introduced proposals in relation to a corporate loss transfer, and they seem to have been deferred. The federal government tells us that it is not because of reluctance on its part but



because of provincial concerns. In our view, the federal proposals were indeed sound. They have the support of this trade, and we think they are very natural part of the whole corporate tax reform process. If Ontario is one of the provinces that is showing some reluctance to go along with that proposal, we urge reconsideration and acceptance of the proposal.

These are our recommendations. We did in our first draft have something to say about the implementation of the indexed pension provisions. However, just today we got some new information on the behaviour of some companies in relation to that issue. We feel we should reconsider our position and we will make a separate submission to the Treasurer on that subject.

My colleagues may wish to add something to my initial comments.

Mr. Hall: The corporate loss transfer system is one that corporations have been looking forward to ever since it was announced in 1985. Since then, we have been stonewalled by the federal government. Whenever we have brought it up, they have said: "It is not our fault. It is the provinces. You will have to see the provinces." They have not specified Ontario as being one of the provinces that is holding out, but we would like to add what weight we could to you to urge Ontario to get into this system.

The problem is not so much that things cannot be done without this corporate loss transfer system, but it is terribly time consuming and really nonproductive time when you have to go around sideways to do what you should be able to do directly. So we urge you to recommend that Ontario get behind this proposal.

Mr. Chairman: Maybe you could delineate that problem a little more.

Mr. Hall: I am sorry, yes. I deal with it and I am so wound up in it that I assume everyone else is.

Right now, if you have a group of corporations, you may have a situation where some are running at losses and some are making profits. Then under the present system even though there is one ownership, there is 100 per cent ownership of all those companies, the companies that have made a profit have to pay tax. The companies that are in a loss position get no credit for it.

The proposal was: Why not simplify it so that you can just transfer losses among corporations in the same control group? In the end result, if you have losses that balance your gains, you do not pay any tax. There are ways of doing this, with winding up corporations and transferring around, but they take a lot of legal time and administrative time. Essentially, it is a waste of time if it can be done in a simple manner as was proposed.

Mr. Chairman: I see. That is in the province's hands. The federal government has passed the buck to us.

Mr. Hall: Mr. Wilson told us last November that he is in agreement, but the provinces are not.

Mr. Chairman: I see.

Mr. Hall: As I said, he did not say that Ontario was one of the holdouts, but--

Mr. Ferraro: It certainly would not be us.

Mr. Chairman: It conceivably might be, Mr. Ferraro, I say from my chairman's chair. That is something we obviously should check into.

Mr. McKichan: It is not a tax avoidance device.

Mr. Chairman: No.

Mr. McKichan: It is perfectly legal to operate.

Mr. Chairman: It is a collection.

Mr. McKichan: Yes.

Mr. Chairman: It is an administrative problem. I see. Mr. Neumann has a question.

Mr. Neumann: Specifically related to that, could the corporations not get around that by simply merging the corporations?

Mr. Hall: We can get around it by merging but sometimes, for business reasons, you cannot merge. There are valid agreements that are in place and the cost of doing all that, even the cost of just a ordinary, simple merger. You go into your lawyers and their meter goes "tick, tick, tick, tick." It takes a lot of time and it costs a lot of money. This system would allow you just to make a simple election to do it, to transfer the loss. Say, company A has a loss, you could apply that loss against the profit earned by company B.

Mr. Neumann: Is it not true that corporations set up these separate corporations to limit their liabilities? I can think of various liabilities to pick out that would limit the impact.

Mr. Hall: I guess historically that was the reason, but now the reasons for separate corporate entities have a lot to do with business rather than limiting liability. You still have a limited liability if you have it in one corporation or another.

Mr. Chairman: Leaving aside for a moment your discussion of national sales tax, which is very interesting, you say here that you would hope that we would be able to hold the line and not increase taxes. Supposing this committee or, perhaps even more likely, the Treasurer, feels he does have to increase taxes, the options are numerous. They could be income taxes, corporate or sales taxes, with our present seven per cent sales tax. Our economic outlook indicates an increase in one per cent would increase our income by something in excess of \$800 million a year. What is your reaction to that? What tax would you suggest would be thought increaseable?

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Mr. McKichan: If the question is, where would we like to see it applied, if it has to be applied, of course, our first reaction is that we hope it will not be necessary to apply.

Mr. Chairman: Yes, I understand that.

Mr. McKichan: As people who are involved in the sale of commodities, which for the moment bear the full brunt of sales taxes, and recognizing the fact that sales taxes are regressive and that we are among those who bear the

brunt of their incidence in terms of the effect on demand, we are never keen to see increases in commodity taxes. However, we recognize that generally speaking to achieve the highest degree of equity in the case of increases, they usually have to be spread around. We do not think it would be realistic to expect that commodity taxes would be exempted entirely from any such increase. We would not suggest that any increase be focused entirely on commodity taxes.

Mr. Doucet: To add to that, one of the things we have heard--and we do not know whether it is true; maybe you could shed light on it--is that Ontario actually has a blueprint for applying provincial sales tax to some services that are not taxed at all now at the sales tax level. If that is the case, that the kind of thing we, as a major service industry component, would want to look at before it was dropped on us.

It is to some extent consistent with the concept of a national multistate sales tax, but the idea that Ontario might do that on its own as part of this revenue collection problem you were referring to, I think, is something you would want to look at very carefully.

Mr. McKichan: We would not want to see the province locked into a new position of sales tax base from the eve of what promises to be the reform of the whole sales tax base.

Mr. Chairman: As a committee we have not heard of that blueprint, but that does not mean it is not there somewhere.

Mr. Pelissero: You do have a copy, do you not?

Mr. Doucet: You pick up intelligence everywhere, and it could very well be untrue, but if there is some element to that, I think it is the kind of thing we would rather look at as opposed to having it dropped on us in the budget.

Mr. Chairman: That concerns you, though, you are saying? It concerns you even as a retail council--I realize you are a service industry, but you are dealing with selling merchandise.

Mr. McKichan: Primarily because we would not like to see the eventual national sales tax prejudiced by a radical shift in the existing sales tax base which might prejudice the province's attitude towards achieving a comprehensive, uniform base. Of course, we do emphasize that under the national sales tax base, it is still the freedom of the province to increase its segment or decrease its segment of the sales tax take.

Mr. Ferraro: I have two questions. One might be a little bit off topic. Also you might tell me you do not want to answer it.

Mr. McKichan: All right.

Mr. Ferraro: What is the position of the retail council on Sunday shopping?

Mr. McKichan: We had this discussion a couple of weeks ago when we were before the committee on the principle of the issue. We are not able to take a position because our members are so divided. We speak to some of the peripheral elements.

Mr. Ferraro: In fairness, the small business community in general is pretty well of the same opinion.

Mr. McKichan: Yes.

Mr. Ferraro: My question though is somewhat derivative of yours, Mr. Chairman, and thank you for your presentation lady and gentlemen. We are told that over the next four or five years, as a province we are going to lose significant amounts of transfer payments from the federal government, somewhere in the vicinity of \$2 billion. I think my colleagues--I am sure you appreciate and will reinforce the fact that in the last four days, we have been asked for in excess of \$10 billion in funding from various sectors--

Mr. Chairman: Mostly new funding.

Mr. Ferraro: Mostly new funding. Yes. I should point that out.

We were told as well by the Treasury department in its forecasts--you may have seen it--that particularly from the period of 1989 to 1991, we are going to have real growth of an average--their estimate--of about 2.5 per cent and inflation close to five per cent. Finally, to set the table, we are expecting a deficit from this year's budget, as I am sure you aware, of about \$1 billion. So I guess I would have to say you can appreciate the predicament we have. Derivative of the question, "If we have to have an increase of tax, which one would you want?" my question would be, would the retail council have any particular area of service it would like to see hampered, if you will, or tightened or indeed are you promoting the idea of deficit financing or is there a preference? That is a pretty general question.

Mr. McKichan: On the expenditure side?

Mr. Ferraro: On the expenditure side. I am making it up that the revenues are going to be equal to expenditures, at least, in the near future. That is a pretty tough question; I realize that.

Mr. Doucet: Mr. McKichan nodded toward me. I suppose I could add something to that. The current increase in the deficit over earlier predictions this year is the result of some colleges and university expenditures and some health expenditures--

Mr. Ferraro: Health and social services.

Mr. Doucet: We think it is quite important that the Ontario government monitor the recent federal tax changes because in some instances there will be revenue gains for Ontario that will offset the transfer payment losses. We realize the federal government is playing hard ball with the provinces right now on various things; apprenticeship is one example. The fact that you may be losing money on the transfer payment side, in our view, is not a justification for you immediately to make tax rate increases where you do not yet know the net impact of those federal tax changes.

One example is the capital tax, which others are more experienced than I to talk about, but we understand that just the federal change in going from 50 per cent to 66.67 per cent capital gains included for tax purposes will provide a certain amount of additional revenue for Ontario. That has to be taken into account before Ontario says: "Whoa, we have lost a lot of transfer payment money. We are going to hammer this or that service or we are going to tax additionally persons or corporations in the province." I think that is the



theme of our report.

In terms of actual services that you might cut, I have not come to any conclusions on that. I do not know which ones you would want to cut.

Mr. Ferraro: I appreciate what you are saying, Mr. Doucet, but just to set the table a little more precisely--you are right; until we really see what comes out of whether or not we are going to have a national sales tax and all the rest of it, the net benefit, we really do not know for sure. All I can say is--and I think I am correct--presentations from the Treasurer of Ontario and the Treasury staff, to some degree, reinforce the idea that in their opinion we are going to be substantial losers, because to some degree, even though we have increased revenues in Ontario, they are being offset by increased demands for all the reasons we all know.

I guess what I am saying is that I am inclined to believe at this juncture that notwithstanding whether or not we get a national sales tax or the full implementation of tax reform to suggest that we are going to be in a deficit operating position. I guess on that basis--and you may be right. I would like an opinion of the position of the retail council, not only vis-à-vis the provincial sales tax, but also addressing our other and only alternative, either we cut services or we increase the deficit.

Mr. McKichan: If I might just revert for a moment to the income side, there is of course the prospect of the relatively enormous tax flow from the taxation of the service sector under the combined national sales tax, which is a tremendous productivity potential.

We also understand, and this is a subject that has not had a great deal of discussion. But the experience apparently in New Zealand with general sales tax which has now been in effect for 18 months or so, is that quite unexpectedly not only did they get a much larger take from that tax than they had planned, but also it was instrumental in uncovering a great many other heretofore unreported sources of earned income, both corporate and personal, because of the expanded tax collection base which gave the taxing authorities a completely unexpected windfall in their corporate and personal tax collection procedures of really dramatic amounts in the New Zealand.

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Mr. Ferraro: I certainly hope you are right. And I will finish, Mr. Chairman, by saying, unless I am totally out of my field, could we get a copy of the Treasurer's presentation and Dr. Bryne Purchase's presentation to the committee sent to the Retail Council of Canada? Anybody want to comment?

Mr. Chairman: Sure. Yes, you want us to send--

Mr. Ferraro: --to send to the Retail Council--

Mr. Chairman: --our transcript?

Mr. Ferraro: Yes.

Mr. Chairman: We will do that.

Clerk of the Committee: Did he say transcripts?

Mr. Chairman: Retail transcript?

Mr. Ferraro: Or even the Hansard.

Clerk of the Committee: They receive this one automatically.

Mr. Chairman: You automatically receive the transcripts?

Clerk of the Committee: No, not them.

Mr. Chairman: We are sending it to them.

Clerk of the Committee: Oh.

Mr. Chairman: Do we send it to them Yes, that is right.

Mr. Harris: Which one are you talking about? The one that was made here because all that dealt with, I understood, was the transfer payment.

Mr. Ferraro: Well, in the preliminary part, did Mr. Nixon not deal with--

Mr. Harris: I guess he was, it was--

Mr. Ferraro: --changes between Mr. Wilson and Mr. Nixon?

Mr. Harris: There was a little bit of it. But actually what would be more relevant is the paper that Mr. Nixon tabled in the House when the whole--

Mr. Ferraro: That one as well, sure.

Mr. Harris: That one I think had a lot more detail.

Mr. McKichan: I think we have that.

Mr. Harris: You have that? Yes, well that is where the figures came from. Just by supplementary, I think Mr. Ferraro was asking about the deficit, and I think it is a relevant question, and several of us asked, and on page 4 of your brief, your statement, "While council supports continuing vigilance on the part of the Ontario government with respect to expenditure increases, the increase in net cash requirements for 1987/88 is, in our view, not sufficient to justify any tax increases at this time."

I take that statement from you as saying that the deficit is going from \$9 million or so to \$1.1 billion and that is acceptable to you.

Mr. McKichan: Well, what we are saying is we expect the tax take is going to be substantially better than was expected or has been projected by the Treasurer.

Mr. Harris: No, this is not sweetened just by any tax increases at this time and you sum up, steady as she goes, it is OK to carry on this way. I think this is saying the billion dollar deficit is about what it should be and that is OK.

Mr. McKichan: We are saying, keep in mind the greatly expanded tax take that we are expecting. That is why we suggest the situation should be monitored.

Mr. Harris: But no where do you state that you are concerned about

\$1 billion deficit or that you would like to see it eliminated. Do you think it is OK? I mean I think since you are into the area, it is a fair question. You say we should monitor. Are we monitoring to see if that brings in the extra billion and the deficit is eliminated?

Mr. McKichan: Well, if our tax take is substantially less than we expect, I think obviously the subject should be revisited and steps taken.

Mr. Harris: So, the deficit should not exceed \$1 billion--

Mr. McKichan: Right.

Mr. Harris: --the level that it is at now?

Mr. McKichan: Right.

Mr. Harris: OK.

Mr. Neumann: I have some questions. On page four, and it is sort of following up on Mr. Harris's line of questioning, you indicate there is not sufficient reason to justify any tax increases. You mentioned consumer confidence. I take it you prefer continuing with the present level of the deficit? Hopefully you think it will go down with extra revenues that you are predicting rather than a tax increase. Are you trading off consumer confidence for investor confidence here because investor confidence seems to dictate an elimination of debts?

Mr. McKichan: I think that certainly the approach taken at the federal level is that while the highest priority is put on containing the deficit, to attempt to do it in one fell swoop would also have a negative effect on investor confidence. But to take a steady and programmed view to achieve it over a reasonable period of time is probably the most productive.

Mr. Neumann: What is your council's view of the consumer retail outlook over the next 12 to 18 months?

Mr. McKichan: Provided there are no external shocks or any unexpected shocks, it is for reasonably good performance. We do not think this year will be quite as good as last year, which was unexpectedly good. But we do not see any reason to think that there is going to be any sudden shifts in consumer behaviour unless something unexpected happens.

Mr. Neumann: Do you see the confidence at a level that would permit new developments, retail expansion?

Mr. McKichan: It is a year of modest retail expansion. Actually, it is a curiosity of our industry that the decisions for expansion are not usually primarily those of this industry but of the development industry.

Mr. Hall: Several years in advance.

Mr. McKichan: Yes. It is not susceptible to quick changes in direction.

Mr. Neumann: It is a lot more long-range forecasting. We had a previous delegation before us--I believe it was the cottagers of Ontario, and then another delegation representing education interests--who both wanted us to phase out property taxes at the local level and shift the burden to income



and corporate taxes. They felt this would be more equitable. What is your reaction to that?

Mr. McKichan: I guess the first reaction is that--

Mr. Neumann: Not to phase them out totally, but their argument was that it is unfair, for example, for cottagers to pay double tax; that they are paying for education; that basically soft services do not make sense. On the property tax, because property taxes should support services to property such as sewers and roads and that they have come to bear--the property tax system has come to bear a lot of social services, soft service areas, and that it is more proper to shift these into the provincial arena and increase corporate and income taxes to pay for it.

Mr. McKichan: I guess it is a truism in the tax world that, it is an overstatement but there is an element of truth in it that, "an old tax is no tax" in the sense that once it is in being, society tends to make adjustments around the existence of the tax. So I think that a sudden shift of the tax from one source to another would create a lot of pain. Would you like to speak to that, Mr. Hall?

Mr. Hall: I do not think you are ever going to get away from the blend of taxation. You have to tax people a little bit of their capital, a little bit of their income, a little bit of consumption. I think you have to continue that. Frankly, I think the present levels should not be tampered with that much, although I do own a cottage, so--I do not think they should be phased out.

Mr. Neumann: I have one final question and it is one by way of clarification and it is probably because I do not understand intimately all of the issues you have raised. On page 11 you refer to "cross border transactions". Would you elaborate a little on what the problem is in this area and how this level of government is affected?

Mr. McKichan: Yes. The problem arises where a retailer in a town on the border of Ontario who has a considerable amount of custom from citizens, or residents, of a neighbouring province who shop in that store, and who are not obliged to pay tax at the time of purchase, but are supposed to pay tax to their home province. In many cases the item goes unreported, and the customer escapes tax altogether. This, of course, has an adverse effect on the competing retailer who, if that retailer operates several branches in various jurisdictions, including the two jurisdictions concerned, is obliged to report the tax and is obliged to inform the provincial collection authorities of the purchases that have been made. Then the tax is collected from that taxpayer.

If a retailer is doing business in only one province, he has the obligation, but he is not compelled to report these transactions to the taxation authorities. It prejudices those companies that happen to do business in several jurisdictions because they are at a tax disadvantage with their competitors who are quick to advertise to customers across the provincial border that you can buy tax-free in that particular store.

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Mr. Neumann: What is the solution?

Mr. McKichan: We have suggested there be an interprovincial agreement among all the provinces that they will require retailers within



their jurisdictions to report the sales made to customers outside their jurisdictions, and the provinces would then exchange information.

Mr. Villeneuve: Then the bailiff shows up at your door.

Mr. McKichan: You get a tax bill. It would soon cure the problem because customers--

Mr. Neumann: Would a simple solution not be to have provinces simply recognize that sales get taxed where they are made rather than the--

Mr. McKichan: Constitutionally, I understand they cannot do that because the tax is theoretically a tax paid by the individual, not by the company. It is payable in the province of residence.

Mr. Neumann: I must be one of those naïve consumers. I visit Montreal once in a while and I always pay sales tax. You are telling me I do not have to pay it.

Mr. Hall: If you take possession in Montreal, you pay Quebec tax. However, if you say, "Send it to my Ontario address," there is no tax.

Mr. McKichan: You are supposed to pay Ontario tax to the Ontario Treasury.

Mr. Hall: You are to report to Mr. Nixon at the end of the month.

Mr. Chairman: Do not most of the major stores collect it anyway? I buy at Eaton in Montreal and I end up paying it.

Mr. Hall: That is the problem. The problem is that right now all the major stores such as we represent are doing this, are collecting the Ontario tax on a sale made in Montreal and shipped into Ontario, but there are a lot of smaller stores that operate only in Quebec, and I would especially add, in Hull. This is a real problem. It is costing a lot of loss of business to the honest business people who are charging the tax.

Mr. Chairman: We have revolutionized that with support and maintenance payments. I suppose we could be doing the same thing.

Mr. Hall: I would like to point out that if the national sales tax ever comes in, this would solve that problem immediately because that would be a tax on destination. This is another reason we are pushing for that tax.

Mr. McKichan: It is not the major reason, mind you, Mr. Chairman. The tremendous simplification a national sales tax would have is one of our chief motivations.

Mr. Chairman: Speaking of constitutional problems, I have never really understood why we can get around the fact that we can only apply direct taxes by having a national sales tax, which essentially would be a hidden tax, would it not?

Mr. McKichan: No. Our recommendation is that it be an exposed tax.

Mr. Hall: I gather they are working on this in Ottawa. They perceive there may be a bit of a problem with the British North America Act on that. Part of the national sales tax agreement would be some sort of amendment that

would permit this.

Mr. Chairman: As long as both levels of government agree, who is to complain except the people?

Mr. Villeneuve: Thank you very much for your presentation. I agree with you. I come from a border area and represent a border area. In the advertisements the emphasis is on, "We will deliver and you do not have to pay sales tax." It is on big ticket items such as furniture and appliances. It is a pretty important thing.

You spoke of having expansion or a very buoyant economy last year. How buoyant do these things have to get before you flash a caution signal regarding inflation? Are we close to that?

Mr. McKichan: It was not really inflationary. The level of demand, in our view, was not inflationary in the sense that there was plenty of capacity to take care of the demand. There was not a demand-driven inflation we experienced last year. The inventories were not under pressure. Most retailers were well sold through in the Christmas season, but they were not running short of merchandise. In fact, particularly in the clothing area, there was very strong price competition throughout the year. There were areas where we came up against some capacity problems in the home furnishings and house furnishings and floor covering areas and so on, but even there it was not a significant factor. The inflation rates were not significant.

Mr. Villeneuve: I notice you were hesitant in replying to the question of my colleague, Mr. Ferraro, regarding Sunday openings. Do you foresee some more modest gains upcoming this year, but still a very buoyant economy with the advent of free trade? How does your industry react to that? I know we could take all afternoon but I am sure you can summarize it.

Mr. McKichan: We are strong supporters of the free trade agreement, not so much because it has any direct effects on our trade--we do not see it having a tremendous number of direct effects--but more because of the positive effects on the basic manufacturing and service industries, many of them, of course, being supply industries to our trade. We find that most of our supply sectors are positive towards the agreement. It is not universal. There are segments that have concerns, but on balance, many more of them seem to be positive rather than negative towards it.

Mr. Villeneuve: Thank you. I am sure my Liberal friends are listening very closely.

Mr. Haggerty: I have a question for the panel. On page 3 of your brief you say, "With respect to federal tax reform measures related to personal and corporate tax, the concerns of the Treasurer of Ontario regarding the impact on Ontario revenues have been noted." Then at the bottom of the page you go on, "On this basis, council believes the expanded federal tax base will more than compensate Ontario despite the lower federal, personal, tax rates."

Mr. McKichan: We were talking there about the fact that the elimination of the great range of tax incentives will to a large extent compensate for the lower rates, and of course Ontario also becomes the beneficiary of that expanded base.

Mr. Haggerty: Then on page 6 you say, "Council has been supportive

of broadening the sales tax base to include services as well as goods." Looking at page 3, at the matter about the personal income tax and corporate tax, there will be some reduction in that area. You say that is good. Then you come back on page 6 and you support the principle--I think I heard you say this--that council would be "supportive of broadening the sales tax base to include services as well as goods." That seems to tell me that you are reducing the tax in one area, but then applying a tax measure that is going on to the backs of lower income families. Am I correct in that?

Mr. McKichan: No, that is not our intention.

Mr. Haggerty: It is not your intention but that is the intention of the federal government. You lower the personal income tax and the corporation tax to say there is a benefit to certain individuals or corporations. But then they come back and say, "Now we are going to apply a tax on services."

You could look at services and say that if you go to the emergency ward of a hospital for emergency treatment, often they will provide you with a tray with all the medical supplies on it, whatever is required. There is usually an extra charge for that but you are also providing a service. You could say that maybe that tax could apply in that area. You could call in somebody to repair your television set. Repairing that set is a service. You can go on. There is no end to this. This is why I say you are giving the benefit to some other persons that should be paying a higher income tax instead of putting it on the lower sector of the totem pole.

Mr. McKichan: First of all, I guess medical services have been taken out of the base by the decision of the federal Minister of Finance.

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Mr. Haggerty: It is in free trade, though.

Mr. McKichan: No, it is also excluded from free trade. Any services provided by government are excluded from the service sector.

Mr. Haggerty: In free trade?

Mr. McKichan: Yes.

Mr. Haggerty: That is not the evidence that has been presented before this committee because that is part of the service sector.

Mr. McKichan: With respect, Mr. Haggerty, there is a very specific section dealing with that item in the free trade agreement. I will be happy to show it to you afterwards. As far as the question of who bears the taxes on services is concerned, it would be my suggestion that higher income taxpayers, and of course business, are much bigger consumers of services than are lower income taxpayers. I think that by applying a tax on services you are not being regressive; you are being counter-regressive; you are being progressive in the application of the tax. The big users of services are businesses on the one hand and higher income taxpayers on the other.

Mr. Harris: Can I comment on that? On the tax on services, the view is that by expanding federal tax to services, and you would like to see the province do the same, you can then reduce the federal tax, the rate that is now just on goods. With the provincial government--I am not an expert on it--was not the figure that five per cent on everything would yield the same



as seven per cent does now?

Mr. McKichan: Yes. The current manufacturers' tax is highly capricious in terms of which items are covered and which items are not covered.

Mr. Harris: Is that to be revenue-neutral on its own, exclusive of the changes to the income tax, or is it the income tax reduction in rate? Is that factored in in the overall goal of all these tax changes being revenue-neutral?

Mr. Hall: Currently, phase 1 of federal tax reform includes a surtax on both corporate income tax and personal income tax to make up for the shortfall until stage 2 came in, so to that degree those surtaxes currently on income are to go on services.

Mr. Harris: So that when the second stage comes in, if it comes in in the way Mr. Wilson has envisioned it or laid it before us, there will be some offset there and the surtax on the income tax will be able to come off if everything is going to be revenue-neutral.

Mr. McKichan: Of course, it is up to the province, in establishing its rate, to determine whether it simply wants to maintain its stake from the commodity tax sector or whether it wants to increase that as a result of the--

Mr. Harris: I understand. That is the great fear I have. Am I next on the list?

Mr. Chairman: Not really; I only had Mr. Ferraro. I did not see your hand up. The problem is there is a time problem.

Mr. Harris: Let me have one more supplementary and I will not go on the list. How is that?

Mr. Chairman: Very good.

Mr. Harris: I sense it is your view that its removal will be progressive from the viewpoint that the primary users and purchasers of the service who will be paying tax on that are higher income people.

Mr. McKichan: And businesses.

Mr. Harris: Have you done any analysis of that? The insurance industry is one that maybe, arguably, does not apply because most of us consider a car relatively basic. Auto insurance is an example. It is interesting that the stock market people were here yesterday. I would agree with you there that all that revenue would be considered progressive in that it is people with surplus money. On the other hand, their brief told us that they should have a zero rate, which I assume you probably would not agree with.

Mr. Hall: If they will give us a zero rate on retailers.

Mr. Harris: That is right. It kind of starts to defeat the purpose. Everybody is coming and asking for a zero rate in the service industry. Do you have any analysis of that? Does the federal government? I have not read a lot on why it is progressive. Most people who analyse what is a progressive tax tend to say the income tax is far more progressive than a sales tax.

Mr. Westlake: One of the things you have to remember is that they



are considering, with the national sales tax, a sales tax credit and an enhanced one--

Mr. Harris: I understand.

Mr. Westlake: --that will essentially compensate.

Mr. Harris: It will compensate there, but you have brought a new dimension into it too, that by bringing services in and reducing the overall rate, lower income people will benefit with the lower rate on goods, which they are heavy purchasers of, and since they are not heavy purchasers of services, will not be making it up there. It will be higher income people and businesses. It is interesting.

Mr. McKichan: That is correct.

Mr. Harris: I have heard a lot of that argument put forward.

Mr. Westlake: As an aside, the other thing you have to remember about the revenue side of it in relation to the free trade agreement is that you cannot have Ontario tax rates very much out of line with US tax rates. The wall you are going to run up against is that you are not going to be able to raise tax rates any more. The tough decisions are going to have to be made on the expenditure side.

Mr. Harris: Unless you raise the tax rates and provide a service about which all workers say, "That is good, so we will take less in wages." That would offset it. That happens at the table every year, does it not?

Mr. Chairman: Just quickly over to Mr. Ferraro, then we are going to have to move on.

Mr. Ferraro: I want to take advantage of the expertise in front of me. If I want to determine which was the greater motivator for retail sales in Ontario, I will make the assumption--I am not sure there are any studies that prove this but you might be able to enlighten me--that if you put money directly in the hands of the consumer, the taxpayer, such as we are going to get in July as a result of tax reform, that stimulates and increases sales--I am making the assumption--to a greater degree than--for example, I recall when we had the recession, probably one of the most successful things the government of the day did was when Frank Miller took the tax off automobiles. Since I have all the tax experts from very large consumer-retail organizations, I want to ask the question, which is the greater motivator for tax for retail sales?

Mr. Hall: I think that short term, the move taking it off retail sales tax is effective, but I think that long term, more income in their hands will be a better stimulator.

Mr. McKichan: I guess our experience with these short-term manipulations on the sales tax rate is that, when it is done, you get a lot of demand before the tax concession comes off, but a lot of that is transferred demand. You are transferring it into the present from the future. You suffer when the rate reverts to its former level.

Mr. Ferraro: My last question is, as you are probably aware, we are going to get a double rebate for six months commencing in July. Subsequently, your retail sales will probably get another kick in the rear end come January

1989, I suspect. Is that fair?

Mr. Hall: No, the rates will not go back up.

Mr. Ferraro: But the degree will be less, the degree of benefit in your cheque.

Mr. McKichan: It is not quite the same analogy as the sales tax manipulation. There is a slightly different psychology involved, I suggest.

Mr. Ferraro: I guess if you are talking about cars, it is a hell of a lot different than if you are thinking of buying a shirt.

Mr. Chairman: Thank you very much. It has been helpful. It was a good submission. I take it you will not have time to develop your view on indexed pensions prior to next Wednesday when we start writing our report.

Mr. McKichan: We may, Mr. Chairman. We will certainly strive for that and we will be happy to supply you with it.

Mr. Chairman: We would be interested in it but we do have a difficult timetable to meet.

Mr. McKichan: Thanks, Mr. Chairman.

Mr. Chairman: The next group we have is the Citizens for Public Justice. Their brief, 25(a), was distributed on Monday of this week, and we have extra copies here if you do not have it with you. Representing the Citizens for Public Justice we have Wayne Carrick, Steve Smart, John Olthuis and Gerald Vandezande. Mr. Carrick is leading off.

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#### CITIZENS FOR PUBLIC JUSTICE

Mr. Carrick: I am Wayne Carrick, secretary of the executive committee of Citizens for Public Justice, Ontario. Also present on my left is Steve Smart, another member of the executive committee. To my immediate right is Gerald Vandezande, the public affairs director of CPJ, who will also make some opening remarks. And on my far right is John Olthuis, the research director of CPJ. We regret that one person listed earlier as part of our delegation is not able to attend this afternoon.

As these two last gentlemen that I introduced are staff, Mr. Smart and I are here from the membership to state that the submission we are making does have the backing of the 1,000 members and 2,000 supporters of CPJ in Ontario. A description of CPJ is in appendix E of the written brief.

Much of our submission reflects the heavy involvement we have had with the Social Assistance Review Committee and reflects very much our discussions there. We very much appreciate this opportunity to appear before you. We hope your work will contribute significantly to the establishment of social and economic justice for all people throughout Ontario.

There is no justification for homelessness and poverty in a wealthy country like Canada. We must continue to fight the scandals of homelessness and poverty in Ontario. This will not be accomplished only by gathering briefs and staging hearings. There are no easy answers. These are chronic social problems.

The Ontario government's economic, fiscal and social policies need a radical overhaul. Right now the social welfare system often functions like a safety net. It saves you from the fall, but then you are stuck in the mesh without the resources needed to rebuild your life. Instead, people need a springboard so that they can show their resilience and bounce back, recovering their human dignity, their wellbeing and personal responsibility.

CPJ Ontario emphasizes the goal of economic justice for the poor by 1990. Our brief advocates public policy initiatives towards full employment; a guaranteed, adequate annual income; affordable housing facilities; and better human support services.

For these four major areas of concern, CPJ Ontario recommends that the Ontario government make a strong public commitment to its resolution. We recommend for each of these areas that the Ontario government itself establish a public consultation with municipalities and nongovernment organizations; have a committee of the Legislature examine the above concerns and advise quickly; and implement these programs through integrated budgeting and spending.

The Ontario government should urge the federal government and other provincial governments to make a similar commitment by having these items be priorities at upcoming first ministers' conferences and urging the establishment of an intergovernmental task force to develop co-ordinated policies.

Mr. Vandezande: CPJ Ontario is also asking the Ontario government to support the early implementation of CPJ's widely acclaimed social development and job creation fund proposal and its federal tax reform proposals contained in A Vision for Tax Equity, copies of which have been filed with the brief with your committee.

Furthermore, CPJ Ontario recommends that the federal and provincial governments implement the goals of the Canada assistance plan. In 1966 the governments committed themselves to "the prevention and the removal of the causes of poverty and dependence on public assistance." Our governments should become law-abiding and do what they promised more than 20 years ago. In our view, justice delayed is justice denied on the socioeconomic front as well.

The goal should be to end poor people's dependence. We must replace dependence with interdependence and we must move from charity and welfare dependency to social justice and mutual responsibility. We must change to a way of life and public policies based on equity and fairness for all.

In this connection, we stress the need for integrated economic and social development policies that stimulate responsible economic development and genuine environmental and human wellbeing.

The questions all of us must face are the following: Do we and our governments have the commitment to justice and the political will to eliminate homelessness and poverty in our province? Will the Liberals use their huge legislative majority to push through bold budget measures that will finally implement economic equity and social justice for all? Will the Ontario government have the political courage to introduce fiscal fairness, or will it, like Ottawa, continue to allow intolerable inequities and injustices?

CPJ Ontario really hopes that the next provincial budget will tell us that the Ontario government has its political principles and priorities



straight and that it will do its utmost to help eliminate homelessness and material poverty in our province by 1990. We respectfully urge you, as members of the committee, to do all you can to persuade the Liberal cabinet to make to goal of economic justice for the poor a top priority in the 1988 budget.

Mr. Chairman: Are there any questions?

Perhaps you could tell us a little bit about your background and how you have become advocates for the poor, and I might say that with the full understanding that, as members of the Legislature, we do not get as much advocacy from the poor as we should. They themselves are often not speaking out or not knowing how to speak out.

Mr. Carrick: I will make a few remarks; others may want to add.

Citizens for Public Justice is 25 years old and is an association of people primarily of Christian faith who want to address political, social and economic concerns. Since we come out of the value framework that we do, the concerns of the place of those who are disadvantaged, who are marginalized, who are in poverty are important for us. We see it as necessary to view all of us in Ontario as part of one community looking after each other.

I think it is fair to say that those of us at the table here do not live in poverty, but our concern there did draw us into a very heavy involvement at the Social Assistance Review Committee and in consultations with those who are poor, who work in food banks and who deliver services at a street level.

Mr. Chairman: So you have a lot of input from the actual firsthand deliverers of services and the poor themselves?

Mr. Carrick: Yes.

Mr. Vandezande: The bulk of the brief that you have was put together with the assistance of people who went through the very problems that we have discussed in the brief, and most of the recommendations come from a number of these people. For example, a group of women who regularly visit the Scott Mission were heavily involved in giving us the kind of information and recommendations that are contained there.

A number of these people said that they did not want to appear, partly because they feel that governments do not listen. Despite huge write-ups in the newspapers and television coverage of their plight, they say, "It seems that our cries for justice fall on a deaf ear." They become very discouraged, if not cynical, about the process.

I think this committee would do well if it still can, or certainly in the next round of hearings, to go out of its way to engage these people in a kind of consultation on an informal basis, perhaps, so that they can indeed speak their mind. Many people are afraid of appearing in a public forum of this kind and they need a more personal setting where they can just share the plight. The other problem is that they do not have the kind of transportation, resources and equipment needed in order to put together a presentation that they think needs to be made here.

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Mr. Olthuis: If I could add just a couple of comments to that, I think it is generally assumed that you have SARC to take care of social needs



and your committee does economic and financial stuff. We proceeded far too long in our society on the basis that if you have a strong economy, good things will trickle down to the poor. They do not, and many of the economic measures that we adopt contribute to poverty.

In terms of our social justice perspective and the experience of people, we come to the same conclusions: namely, that it is the socioeconomic system, the financial arrangements, that have to contribute to justice in the first instance, so that when we are talking about finances, we should be talking about creating jobs and doing social justice at the same time, not saying, "Let us give the corporations all the breaks, and then they will create the jobs." We know that that does not happen and we are saying, let us not proceed on the naïve basis that we can still do that kind of thing in our society and expect to do justice to the poor.

Mr. Chairman: I have no problem with anything you are saying, Mr. Olthuis. I think the problem is that because it is so much easier for those who have resources to come before us, it has been very hard for us to find and communicate with the poor, as legislators. I am very aware of that.

Have you also talked to rural poor and those in smaller communities? Sometimes the Toronto scene gets a spotlight.

Mr. Olthuis: And extensively with native people.

Mr. Chairman: So you have been in smaller communities as well?

Mr. Olthuis: Yes. I do not know what the exact breakdown is of our membership, but our members and the Ontario council come from across Ontario, and there is a group with local involvement in most of the smaller communities. We have Toronto members, too.

Mr. Ferraro: I just want to tag on to what has just been said. I have a tendency, to a degree, to agree with what you said about not as much as some would like of the wealth in our capitalist system trickling down to the poor. Incidentally, I do support many of the things that Citizens for Public Justice stands for.

In that regard, my question is, when I look around at all the negative things and failings of our system of government and, from my narrow point of view as a provincial politician, I look at the rest of the world, quite frankly, I do not think their systems are any better. I am wondering if you could enlighten me a little bit or tell me I am full of beans and that indeed there is a better system, and if so, which one?

Mr. Olthuis: Just a comment from me on that. We have been blessed, not only in Canada but particularly in Ontario, with an abundance of resources, natural surroundings and so on that are the envy of most people in the world. It seems to me that with that comes the added responsibility of building a society where we do better for the less fortunate in our society than any other state does. We are not quarrelling with a system of government as such. We are saying not only that a democratic system has to listen to the poor but also that it has to build the concerns and needs of the poor into all of its policy-making. When we address economic policy, we should not just look at economic indices, gross national product. We should say, "How can economic policy both create jobs and meet social needs? How can we achieve both of those objectives right from the outset in our economic policy?" So more of an integration of those policies.

Mr. Ferraro: I understand what you are saying, but it is my belief, quite frankly, that while we could do more, at the moment, in my view, citizens in Ontario are better off than--I will make the statement--any other citizen in the world, with the exception of some I read that Japan is coming up and West Germany; but at this point in time, I will make that assumption.

Mr. Chairman: That is awfully provocative.

Mr. Ferraro: Having said all that, if my assumption is correct, and I think it is, then I do not know. I felt a little guilty when I heard your presentation.

Mr. Vandezande: It may be true in the aggregate that the total income of Ontario residents is, on an average basis, higher than that of any other peoples in the world, but when you break down who gets what amount and what ends up with the low-income people in this province--and all we need to do is read the newspapers from the Globe down to the Toronto Sun and watch television--we know that there is homelessness in this city. We know that there is poverty.

Mr. Ferraro: I agree.

Mr. Vandezande: That is the reality we need to come to grips with in shaping a budget. In that connection, just this morning I was reviewing the Economic Outlook and Fiscal Review for Ontario, 1987, and on page 59 it shows that social services in this province constitute only 14 per cent of the total budget, an increase of a mere 13 per cent over the last decade, whereas the public debt takes 11 per cent, government takes seven per cent and resources for economic development--the point that my colleague made--gets 17 per cent. In other words, there is, just on the face of it, an inequitable distribution of funds needed to enable people to accept and enjoy their social responsibility and some human dignity, because the emphasis has been on stimulating the kind of economy that still allows for all kinds of pockets of unemployment and poverty. That kind of system, in our view, is not just.

Mr. Villeneuve: I want to thank the deputants for making this presentation to us as the Citizens for Public Justice. Coming from a very rural area, I think it is hard to define what poverty is unless someone is out on the street. In agriculture, for instance, which is basically what happens in the riding I represent, we have some farmers in great difficulty, and I suppose they are not poor until the bailiff shows up and takes over their possessions, house and all. At that particular point, they probably still would not be considered poor. That is the difficulty I have.

Now, accommodation is not a great problem in a riding such as I represent, because it is basically rural. I happened to be watching a TV program here not very long ago that followed three people looking for a home in downtown Toronto, and that throws a totally different light on it. I guess this is the type of individual your group represents, as opposed to the rural poor.

I could argue with you that agriculture, for instance, in the budget will probably be less than 1.5 per cent. You are saying that the 14 per cent, or whatever it is, is a low figure. That is all relative, I suppose, in the scheme of things, but my question is on housing. You have emphasized greatly adequate housing for all Ontarians. Could you briefly outline what your idea would be for the initiative for this government to take to provide adequate housing three years, five years, 10 years hence?

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Mr. Vandezande: First of all, in terms of adequate housing, I do not think everyone is entitled to live in Rosedale, but I am not sure that Rosedale should exist, just to make a basic point that these disparities are not fair.

Second, I think that housing should simply be that people have a roof over their head and a place where they can be together as a family. What the government could do, as it has done in the past with corporations, is to provide low-interest mortgages to people--

Mr. Villeneuve: Could your poor people afford a mortgage?

Mr. Vandezande: That is the point I am coming to--and help to develop housing situations on a land base that is not subject to speculation but is publicly controlled and owned. The ongoing speculation that goes on in the Toronto and other markets prevents people from ever being able to purchase a home or rent a home.

One of the things that needs to be done is that the government has to come to grips with how land will be developed and used, who will own and control it and on what basis mortgages will be provided. Is it simply done for the sake of maximizing the return on bankers' and trust companies' investments or do they have a social obligation and does the government have a social responsibility to see to it that people can get a lower interest mortgage?

Mr. Villeneuve: Do I hear you saying there is an artificial shortage of available land to build on?

Mr. Vandezande: In part, yes.

Mr. Villeneuve: I was hoping you would say that because that indeed is a reality, maybe not so much in downtown Toronto where the real pressure is, but there is an artificial shortage in and around cities like Ottawa, for instance, where they tell us the supply of available lots will last for less than one year and yet we have the bureaucrats throwing every monkey wrench possible in the gears to slow down the possible development of lots in areas that to me are only good to grow houses, speaking as someone from an agricultural area.

Mr. Vandezande: One of the problems is that municipalities increasingly are reluctant to expand their residential subdivisions because they are obliged then to provide schools, which becomes terribly expensive. That would increase the education tax that is levied on property owners and the result is they do not want to expand in several instances. What needs to be done is to restructure the tax base for education.

Mr. Villeneuve: We do have a very vicious circle here and certainly it has to be attacked. In what area of that circle we should be trying to create an issue, I am not sure, but I am with you that there is an artificial shortage of available lots and anything this committee could do to recommend changes here would be most appreciated.

Mr. Olthuis: Just one comment on the general approach here: When Dome cannot afford to explore for resources in the Beaufort Sea, governments give it billions of taxpayers' dollars to do that. We see example after example of this in our society, where government is saying to the corporate



sector via the tax system and other incentives, "We need to assist this particular social objective and we will do it by taxpayers' dollars."

We think there is inequity in that when it comes to looking at questions like homelessness and guaranteed annual income and so on. The philosophy then seems to switch towards individual self-reliance and a suggestion that structural problems do not contribute to this kind of poverty. What we are pleading for is a change of attitude, a change of framework, that we look at social problems as societal problems with societal solutions where economic and tax policy is vital to enabling people to get their basic rights, just as we are doing on the economic side. We are asking your committee to try not to do it just economically but also to see that your recommendations contribute to social goals. Do not divorce what you are doing in the recommendations you make from the meeting of social goals. That is our basic plea.

Mr. Mackenzie: Following up on a couple of the questions Mr. Villeneuve just asked or a couple of the comments he made, I recall doing a paper a good number of years ago on a farm in Stoney Creek that went out of production. The owner set up a company and in a matter of less than a year this farm was flipped three times. The price of the lots went up from what would have been \$4,000 to \$5,000 or something to somewhere around \$20,000; this was all in one year. He did it with just a change of one of the board of directors on each flip over the course of the year.

If we put in place tax measures that would have prevented that kind of profiteering or would have taxed away the profit on those subsequent flips, at least from the original sale, and in effect if we also decided that because there was a desperate need for housing we were going to provide mortgage funds at four, five or six per cent, or whatever was necessary for the incentives, that would be government interventionist policy. You would have no difficulty with that if it was done with the social goals in mind?

Mr. Vandezande: I think governments always intervene, either passively or actively. When the government passively allows the free market to run without any restraint in the context of being required to do social justice, then the government is intervening in the lives of citizens, namely, it allows irresponsible groups in society to interfere with the human rights and responsibilities of the citizens of Ontario.

Actively, it intervenes when, as John Olthuis has pointed out, it grants tax favours and subsidies, as the Premier (Mr. Peterson) did in the previous budget which said we would put aside \$1 billion for technological development. Would it not be great if in the next budget there was at least \$1 billion for housing, if we took that kind of creative initiative to eliminate homelessness in the cities? I think government is always involved. The question is, is the government involved for the sake of justice in making sure that people can lead responsible lives?

I have no difficulty; I would go beyond your solution. I am not sure land should continue to be subject to the market. I think land belongs to the people, belongs to humanity. I do not think it ought to be subject to the ups and downs of the market. It ought to be controlled for the wellbeing of people and therefore perhaps should be owned by government and leased to those who are willing to make responsible use of it.

Mr. Mackenzie: I think it just underlines the problems that we have and that I have occasionally with some of my colleagues: "That is



interference. That is marketplace interference or it is government interference or intervention and that is not a good thing," we are told.

Mr. Olthuis: Every time we have a tax system in society, it is intervention. The problem we have is that the tax system mainly intervenes not for the benefit of those without influence and power in society; the intervention is enormous on behalf of the corporate sector which is usually claiming that it would like to be free of intervention. When tax time comes around, it is mainly the corporate sector that lobbies and has its say in how the tax system will intervene for its benefit.

Mr. Vandezande: In that context, it would be great if this committee would recommend that the Ontario Treasurer (Mr. R. F. Nixon) correct the deficiencies that have been left by the last three or four Tory budgets and the inadequate tax reform that has taken place at the federal level. The fact that many corporations pay little or no tax ought to be at least eliminated in this province. I gather from news reports that Mr. Nixon is looking for increased tax revenue. Well, there is a very solid reason for going after those corporations that are located in this province that are not paying taxes, that ought to pay taxes and that ought to pay a fair share of the taxes.

I do not think it is enough to complain that the transfer from the federal to the provincial government is inadequate. If you want to correct that, it is within this province's power to correct the inequities in the current tax system by charging those corporations which now pay next to nothing.

Mr. Chairman: There are some areas where it is difficult if we are going to continue to let the federal people collect our income tax, etc. For capital gains tax, for instance, we wanted to change and improve, and finally decided we could not do it unless we opted out of their collection system. There are problems.

Mr. Morin-Strom: Quebec has taken that route.

Mr. Chairman: But it is a more costly way to collect taxes.

Mr. Vandezande: Ontario now collects its own corporate taxes. It could increase those taxes and it could make sure everybody pays an equitable share of those taxes.

Mr. Haggerty: Some of them have already been asked, but I want to go back to the matter of housing and the shortfall of housing in Ontario. You mentioned in your report--I think you also tie in the matter of the unemployed--the jobs that have been created through government intervention in the past. I suppose if you have a charitable organization, it may receive a grant to build or construct a senior citizen's building through the Canada Mortgage and Housing Corp. Then so many jobs are earmarked that have to be taken by persons who are unemployed. I am thinking of section 38 of the Unemployment Insurance Act. Funds now are provided in this area that will offset the labour costs in construction on almost any building or hall or anything that receives a federal and provincial grant.

Mr. Vanderzande: That is your question?

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Mr. Haggerty: Could this same principle not be used in the construction of low-income housing or affordable housing--let us use the phrase "affordable housing"--so that we should have a similar program for affordable housing and perhaps cut down on the expense of labour costs. I think the average builder of an average home can only build about three a year. To get into affordable housing, you are going to have to have a massive input of manpower and a program where once you put a foundation in, the foundations continue, and then you get a crew that comes back and puts the frame up and the next one closes it in, and so forth. Have you ever come up with anything in that area? Is it feasible?

You talked about government land. There is all kinds of government land laying vacant. I think of the previous government that bought land in Edwardsburgh township, which is east. You have the land around Pickering and you have the land around Nanticoke. There are thousands of acres of land. They have a good land bank there.

Mr. Vandezande: If the land is not agricultural land and it is suitable for housing, it ought to be used for that. In that sense, we could prevent the spread of metropolitan areas like Toronto. Our figures have shown that when a government does invest in housing, as we did in our Social Development and Job Creation Fund proposal, \$1.7 billion would create 28,000 low-cost housing units and numerous jobs. It has a benefit throughout the sector. It promotes a social good, increases employment and puts money where it belongs, namely, to improve human wellbeing.

Mr. Haggerty: I am not suggesting the government get in and build the houses itself, because the minute the government tenders to put up houses, then the costs go up. I think of the nonprofit housing groups located in communities in Ontario. When they go out and get into the construction phase of it, they seem to get it at a lower cost than if the government was involved in it.

Mr. Chairman: I have a lot of those problems in my area and I have had a lot of proposals made because of the cost of land and the difficulty of finding land downtown by nonprofit groups. One of them proposed to me recently that the government perhaps could lease the land from the developer so that the developer can continue with his greed and still own the land, build housing for a 10- or 15-year period, and then abandon it in the hope that maybe 15 years from now the problems will have changed or resolved themselves and the developer will still continue to be able to charge, 15 years from now, a usurious rate when he actually sells his land. There are all kinds of interesting things that we could be working on, I suppose.

Mr. Vandezande: It is generally agreed that nonprofit housing co-ops do a better job of developing social low-cost housing than developers, so why not have, as one of the provincial government's budget priorities, that grants and subsidies go into that sector rather than into the profit sector, and stimulate the development of community groups which have an active personal interest in the kind of housing that goes up in their area, rather than subject it to market speculation and all the social ills that accompany that?

Mr. Chairman: Yes, but in any event, you have to find the land to start with and usually a developer owns it before you start. That is the first problem a co-op has to deal with.

Mr. Vandezande: But the government has thousands of acres of land.

Mr. Chairman: I grant Mr. Haggerty is pointing that out, but sometimes it is not, with all due respect to your area, Mr. Haggerty, always where people want to live.

Mr. Haggerty: If there was such a program there--I think of the wartime housing programs that were done during the critical stage of the Second World War when there was a shortfall of housing. The federal government got involved in it and put up affordable housing and those houses are still being used today. That was some 40 years ago. All I am suggesting to you is that someplace along the way, for the number of persons unemployed, it is a good training program to get into. Once you get a couple of lead hands, frame or something, there is a learning process in this.

As long as we keep the rental factor at almost zero, and with the crisis in low-income housing or any housing, then the price of those homes is going to be way up until we find suitable accommodation for many people out there. As soon as that happens, there will be a levelling off of the cost of housing. Government has to move in that area. I thought maybe you had done a study or something in this area.

Mr. Olthuis: I think what we are suggesting, Mr. Haggerty, is that the provision of housing be a major economic policy. It is not a social policy. It is an economic policy. The government of Ontario, in terms of economic policy, would be much better off in creating jobs, in assisting small businesses and in alleviating homelessness by putting its revenue into housing than it would by putting it into high tech or something. If you put it into housing--this is where I always quarrel with the proponents of free enterprise--this is really free enterprise because then the market determines and creates the jobs, creates jobs for small construction companies, small services and so on, and you do not have the Cadillac Fairviews that control housing.

We are saying to you that if you want good economic policy, look to some of the social needs and say, "Let us meet the social needs, and in so doing we will create the jobs and we will alleviate the poverty together." That is the approach we think Ontario should take a very careful look at. There is never a better time to do it than when we are in such a buoyant economy with social needs that are so prevalent and with the need to spread the goodies outside Toronto.

Mr. Chairman: My apologies to Mr. Neumann; I actually had him down here before Mr. Haggerty, but I checked him off by mistake.

Mr. Neumann: I do not mind waiting. First of all, I was interested in your membership. You mentioned that you are an organization that is bringing to light issues of social justice from a Christian perspective. Can you give some indication? Do you represent a number of churches or are you just a group of individuals? I am not entirely familiar with your organization. I do not believe you have a branch in our community, the city of Brantford.

Mr. Carrick: No, we have an office in Toronto. We have membership scattered around Ontario. It is primarily individuals and I know those individuals have a concern for a whole variety of these issues. There are Anglicans, Lutherans, Catholics, Christian Reformed, a broad spectrum who



share a perspective. There are about 1,100 members in Ontario and about another 2,000 supporters or donors.

Those 1,100 members are, to varying degrees, active in their own way. I know some of them work in people's political campaigns at the municipal level, and I know at the provincial level, for a variety of parties. Depending on the candidate they like or want to support, they write letters and work on the submission of briefs such as this. They are scattered. Our council meets from across Ontario. It includes Ottawa, St. Catharines, Belleville and London, but there is only one office, in Toronto.

Mr. Neumann: Would I be correct in saying that you represent the modern-day equivalent of the social gospel?

Mr. Carrick: That raises a theological issue and we would probably want to--

Interjections.

Mr. Vandezande: Maybe I could give you a brief answer. We filed with the committee a copy of our proposal to the federal government called Social Development and Job Creation Fund. It was endorsed by all the church leaders, none excepted, of all the churches across Canada including Brian Stiller, the executive director of the Evangelical Fellowship of Canada, as well as the Roman Catholic bishops, the United Church of Canada, the Presbyterian Church in Canada, etc.

Your comment about the social gospel, we are people, by and large, who see that the social implications of the gospel; namely, our obligation to do justice to the poor and to respect the rights of the needy ought to be demonstrated in budget policies. We think this government could make a major contribution in that regard.

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Mr. Neumann: Specifically with respect to your position on the economic issues, what is your attitude towards the federal tax reform proposals? The delegation immediately previous to you was the Retail Council of Canada. They said, "It is great, let us get on with it." They wanted Ontario to remove any objections. What is your attitude towards that?

Mr. Olthuis: We have a real problem, Mr. Neumann, with the federal tax reforms. Since the Progressive Conservatives took office in 1984, personal taxes for the individual have gone up about \$1,100. We just did some calculations after the budget last week.

Since 1984, individual tax contributions have increased \$14 billion. Corporate tax contributions have decreased almost \$2 billion. What we have is the situation in which the federal government is collecting more money from individuals in order to finance increased expenditures and to hold the deficit at its present level. As long as that happens, we are never going to get enough money for proper social infrastructures. What we need to do is tax corporations properly. It is significant to see that when corporate taxes went down in 1987, corporate profits rose 26 per cent. It is a fallacy that corporations use their increased money to invest in Canada to create jobs. Study after study shows that does not happen. Corporations use their money to finance mergers, to go offshore, to become more efficient by closing down plants, or to buy better technology, with the result that jobs are lost and so on.



Yet, we continue to say that unless we give corporations a break, the economy will not--and the whole tax reform is based on that. The next phase is going to be we are still in trouble with the deficit, we cannot raise personal income taxes much more--so they will raise the sales tax and we are afraid the sales tax is going to hit very hard the individuals we are talking about, the poor people. It will be another way of gaining a progressively higher percentage of their meagre incomes at the same time that we are continually giving corporations more tax breaks. We have a fundamental problem with the direction of that tax reform. It brings more inequity.

Mr. Neumann: Yet, your proposals, if you added them all together, I am not sure what the cost would come to, but you mentioned \$1 billion for housing and social programs.

Mr. Olthuis: Yes.

Mr. Neumann: I looked through quickly and noticed the proposal you made to the federal equivalent. How do you propose that money be raised? Are you in support of increasing the deficit for--

Mr. Olthuis: No, we are not. In the \$11 billion proposal--

Mr. Neumann: That is national, I gather?

Mr. Olthuis: Yes. That is national, but it applies as well. We have proposed a number of possibilities; about \$2 billion of that from reducing corporate tax exemptions; a special surtax on the leading 500 companies for another \$1 billion; \$3 billion through eliminating tax exemptions mainly from wealthy Canadians working, with more equitable registered retirement savings plan contribution things; looking at the capital gains exemptions and so on; some savings in the defence budget and so. It is revenue neutral. In that sense, it will not increase the deficit.

If the \$14 billion in additional tax contributions that the government has taken from individuals in the last four years had been put into these programs, which is more than \$11 billion that we are suggesting--into social housing, a guaranteed annual income and job creation counselling and so on--we think the effect on the economy would be very significant. Our studies show that in terms of job creation, these projects are very job intensive. So we are saying just take a tithe of the federal budget, and we would suggest the same in Ontario--take 10 per cent of the federal budget and say, "We are going to devote this 10 per cent exclusively to new social endeavours, such as housing, guaranteed annual income, and let us see what the economic impact of that would be." If the capitalists have anything can teach us, they constantly say, "Well, the marketplace determines." Well, let the marketplace determine for once; let us put money into the hands of the poor and let them spend it, and then let the jobs be created in response to the way they spend it, rather than saying, "Let us give it to the corporations, so they will create jobs." Let us do the reverse.

Mr. Neumann: You must have heard the counterargument, I am sure, that you would get, and that is that if Canada did that, or if Ontario taxed the corporate sector to the degree you are talking, it could discourage investment, and especially heading into what they say is a continental market, and that is free trade. Would we not then be losing jobs and increasing the social costs?

Mr. Olthuis: That is an argument that has to be looked at. I do not

think it is entirely valid. But we have to look at the other side, too, and say that if we do not take some measures toward social equity, the price we are paying is much higher. We are pushing more of our neighbours into poverty; we are being unfair to single mothers; we are creating homeless, and so on.. And if we had to choose between discouraging investors or pushing people into poverty and on the streets, we would choose to discourage investors. That is what the choice was.

Now we think there are mechanisms that can do both; that there are proposals, and government initiative and creativity that can contribute to both. We laud the Liberal's and the NDP's opposition to free trade for that very reason. The free trade deal is going to make it much difficult for us to refute the arguments that the investors are putting forward, and develop social infrastructure.

Mr. Neumann: I would like to give an example from my own experience. I do not know how familiar you are with the community of Brantford, but we went through some difficult economic times in the early 1980s. We just plugged into every potential program we could to turn things around. I remember one year we got a \$500,000 grant to create some temporary make-work programs and matching it with some municipal dollars, we managed to create temporary jobs for about a hundred people, take them off the welfare roll, and so on.

At the same time, there was a federal program to encourage investment by industry and, as it happened, \$500,000 went to encourage a certain particular industry to invest in the community. It initially created 80 jobs, but that company is now up to 150. The temporary jobs lasted only a year. The permanent jobs are still there and the company is growing. As mayor of the city at the time, I much preferred to see the permanent long-term jobs than the temporary make-work jobs; yet, that is the very kind of subsidy that you are criticizing: to encourage industrial investment.

Mr. Olthuis: I think the history of the make-work projects, as you say, often is that there is not quite enough sustained basis to get them going; in other words, if it is a contribution to industry, there is already an infrastructure that the industry has that it can use the money to get--

Mr. Neumann: The point is you were criticizing that kind of subsidy; yet in our community--

Mr. Olthuis: Not if it is done in small communities and if there is an accountability in terms of the number of jobs created. We support that very much. We also think that the other may not have been given a fair chance. Governments have a way of putting those programs in for a year and just when the community group is getting on its feet, the money is gone, and the project fails. Sometimes there has to be more sustained help to get them beyond those setting-up times. That is a general comment on that.

Mr. Neumann: Thank you.

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Mr. Kozyra: Back to the land. The Ministry of Natural Resources is looking for public input on a study called Crown Land as a Development Tool and in it they indicate that the province's holdings of land amount to about 87 per cent of all the land in Ontario, much of it in the north, fortunately or unfortunately. I am wondering if that could somehow be worked in to your plan regarding your proposals for available land and so on. Some of

it may be so radical as to suggest shifting of population to the north and of course then people may get their backs up. It seems it was tried in Botany Bay in Australia for other reasons and look what happened there under the United States motto, "Send us your homeless and your poor," and so on. I understand they are looking for input and it certainly is a vast amount of land that is right now untapped, available and perhaps something could be done there.

The second point is a question for expansion. On your overview, if you could explain for me, the \$1.5 billion for community based projects such as energy conservation. I am not sure I quite understand how that fits into your proposal and what projects like energy conservation would do as part of what you are advocating?

Mr. Vandezande: What Mr. Kozyra is referring to is our social development and job creation fund. On page 1, under the overview, we referred to the \$1.5 billion for community based projects. On page 6, you will see the breakdown of these project expenditures and job creation. The second item, we list the kind of community needs that could be met through that kind of expenditure, such as services for the elderly, energy conservation, recreation, counselling for minority groups, small businesses run by nonprofit, etc. So, there the emphasis is on meeting the needs of a variety of nonprofit groupings in communities that would benefit from that kind of a project.

You will notice that an expenditure of \$1.5 billion in that area would result in a job creation of 52,500. That is the kind of community project that we think will help strengthen local situations and make communities much more viable rather than everyone having to flock to Toronto.

Mr. Kozyra: And not having them flock to Toronto, could you comment on the northern land?

Mr. Olthuis: Part of it should first of all be returned to its rightful owners, the native people. How much of the 87 per cent--

A lot of what the Ministry of Natural Resources and the government says is government land is originally native land. We need to look at that. That is just an initial comment on that part of it.

Mr. Vandezande: It seems to me that the Ontario Municipal Board should play a much stronger role in determining, together with the Ministry of Agriculture and Food, which lands are to be preserved for which purposes. When I first moved to Toronto, there was an agreement that the good agricultural land just north of us would be preserved but now it is increasingly being paved over as subdivisions are put there. We are running out of good agricultural land. It seems to me that good agricultural policy and the land use paper that was produced some time ago, if that were enforced by the Ontario Municipal Board, that then you could spread the population and perhaps funding needs to go into the improvement of transportation between the cities, but that would eliminate the enormous pressures that are now being exerted on metropolitan areas. It might help such communities as Brantford.

If I may comment in connection with the problem you have raised, I would have no difficulty with funds going towards Goodyear and Massey-Ferguson if it could be shown that there a clear need for it, that they were monitored and that, indeed, those funds would be used for job creation purposes. But the history of multinational corporations on that score is not very good, particularly when, as happened in the case of Goodyear, moneys are siphoned



off, go back to the parent corporation and are not being reinvested in the home community. Whether it is land development or job creation or the development or stimulation of corporate job creation, there must always be accountability, and if there is no accountability, we will just engage in giveaway.

Mr. Chairman: We appreciate you coming and being with us today. Your comments have been from a unique perspective. I think that it is very important, as you have told us, that we consider that perspective in looking at a budget for all the people in the province of Ontario. We appreciate the effort and time you put into it. We will be considering it, and I hope that this is an annual meeting, if not more often, between the finance committee and yourselves, because it is important that we hear from you as spokespeople for those who do not articulate their own needs.

Mr. Carrick: Thank you very much for all the time you gave us today.

Mr. Chairman: Our next group is the Ontario Confederation of University Faculty Associations, which is represented, I understand, by Professor John Starkey and the executive director, Howard Epstein. Their brief has been distributed and also an article from Toronto Life. I note from an article in the Globe and Mail that you spoke with the Treasurer a week or so ago.

Dr. Starkey: We submitted a brief to the Treasurer. We have not yet met with him.

Mr. Chairman: This may be your window. The Treasury, of course, will be listening to your submission here today, as well as reading our brief eventually. Perhaps you could lead us through your brief.

#### ONTARIO CONFEDERATION OF UNIVERSITY FACULTY ASSOCIATIONS

Dr. Starkey: First of all, perhaps I should remind the members of the committee that OCUFA represents the faculty and librarians in the province, total membership of about 12,000. I am the president of the association. On my left is our executive director, Howard Epstein.

We appeared before this same committee last year. One or two of your faces are familiar. Maybe you remember also. At that time we presented to you a very brief brief, about one and a half pages. This year's brief in fact serves to amplify and expand that brief because, in fact, nothing has changed. I am speaking to you today from last year's notes. I found them in the folder this morning. I can change the examples, but the message is exactly the same.

For instance, last year we posed the rhetorical question, why were we requesting \$500 million? The reason was, to indicate that at that time the university system in Ontario was still massively underfunded, and to try to heighten your awareness to the fact that there is some urgency in redressing this underfunding. Unfortunately, neither of those factors have changed. Universities remain underfunded and there remains some urgency. I went on to point out last time that underfunding was widely recognized, a fact that had been mentioned by the government of the day, and we were concerned that the recent additions to the university budget which had taken place prior to our meeting with you one year and one day ago, would not be the ultimate step in addressing the underfunding problems, because there still remain difficulties. Unfortunately, since then, of course, we have had an election and the unfortunate part about that is not that we had the election, but that the



Treasurer (Mr. R. F. Nixon) indicated in November in the House that now, in his view, the universities are adequately funded. That, frankly, is clearly not true.

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We were very pleased to be here this morning to listen to the Council of Ontario Universities present its brief. We have no trouble at all with anything they said. I think we are very much on the same wavelength. If I had any criticism of their brief at all, it would be that they were rather restrained; but that may be, of course, because we represent the members who are in the trenches, as it were, and the people in the trenches, on the front line, who are actually coping with the underfunding, clearly will have a rather different and maybe even a heightened perspective of the situation than would the generals in the headquarters at the rear.

Be that as it may, I can assure you that there is a feeling of frustration in the professoriat in this province. In fact, it is a feeling of frustration that is getting heightened.

I would like to address some of the specific issues in our brief, but I will not read through it; I will leave you to do that. I would also mention at this time that I do not intend to burden you with lots of numbers and statistics. If you want numbers and statistics, we can produce them by the cartload, but that would seem to be perhaps counterproductive. But again, if you have questions subsequently, we will be pleased to help you.

I will just pick out some of the main points that we consider of paramount importance, and the first is faculty renewal. Again, this fits in very well with the comments made by COU this morning. COU this morning pointed out that, in certain other jurisdictions, student-faculty ratios were around 10 to one. In Ontario they are around 20 to one.

Now, I think the professors in Ontario are wonderful people. However, I do not think they are twice as good at their job as our colleagues in these other jurisdictions. I would like to think so, but I do not think that is a realistic proposition. Therefore, I think we should look at this student-faculty ratio question in terms of quality. If we have got such high faculty-student ratios, and we have, then something must be suffering. We have a singularly capable group of professors, but unless they are superhuman, then quality must be suffering. The students must be getting a short shrift, and I believe that is in fact the case.

Therefore, a very important part of our brief is to redress or attempt to redress this student-faculty ratio. We are not arguing that we return to the levels that were quoted to you this morning. All we are saying is, let us start back down the road to where we were in about 1971. At that point the faculty-student ratio was one to 15 in this province. That is still higher than in some of the jurisdictions you heard about this morning, which maybe did not impress you. It is significantly lower than it is today.

To accomplish that requires approximately 1,500 new, additional faculty, not the temporary bridging arrangement that is contained in the government's faculty renewal plan, where 500 new faculty are appointed; but, in fact, that is only over a five-year period, and five years from now there will be no new faculty, or no more faculty, in Ontario's universities than there were last year before the plan started. All that has happened is that you have had a bridging loan, as it were, with 500 replacements being brought on stream

before the retirements that they replace happened to take place. What we are talking about is 1,500 additional faculty so that we go up from something like 11,000 faculty in this province to about 12,500.

We also, of course, would need the support staff to go with these faculty positions, and we use the Bovey figure to come up with an estimate of that. The Bovey report suggested 0.8 staff for every faculty, almost one to one. So we are looking at something like 1,200 staff positions in support of those faculty, because clearly, to get the maximum value out of faculty, one needs to give them the necessary support to do their job.

While we are still on the topic of faculty, there is the issue of increasing salaries. This is something that a lot of people seem to think we should feel perhaps somewhat embarrassed about, raising the issue of salaries, but we feel very strongly that in order to protect this profession, we have to make it competitive, and frankly, faculty salaries at the present time are not competitive. They have lost about 25 per cent in real purchasing power since 1971. That is to say, a 40-year-old professor today is earning 25 per cent less than he was in 1971 in current day dollars, and this, of course, impacts on the profession. We want to make it a competitive profession, we want to make sure we attract the best people into the profession and we can do that, I think, only if we treat faculty salaries competitively.

A separate issue that I addressed last time, and which I will treat again, is research. By research we are talking about the need to replace ageing equipment. The equipment is now one year older than it was a year ago, but in fact very little of it has been replaced. Last year I regaled you with a couple of stories about my own equipment, a particular microscope and an X-ray generator.

The situation has not changed, but I have got another story this time. This was before Christmas. I had a piece of optical equipment that was being used by one of my graduate students which was stolen. Replacement cost: \$14,000. We cannot replace it. Fortunately, we had two of these things. We have 60 graduate students, so while we had two that could be shared among 60 graduate students, we now have one that will be shared among 60. I only hope it stays in operation; if it does not, we are out of business. But there is a piece of research equipment we just cannot afford to replace.

We believe we have to look after the basic research needs of the universities before we concern ourselves with the current hype--this is speaking a year ago, but again it has not changed--of high tech and the centres of excellence, etc. This again is very much in line with COU, and in fact it was addressed in the recent Lortie report. The Lortie report, presented on behalf of the National Advisory Board for Science and Technology, said that the role of the university is threefold. In order, they are: the training and education of the new generation of researchers. That is number one. That is unique to the universities. That is what universities, in large measure, are all about.

Number two is the production of new knowledge, basic research. That again is something which is not quite unique to universities, but almost unique to universities, in that there is certainly basic research done in industry, but it is the universities that really have the mandate to do that.

Third--and as I say, this is in order of priority--the third priority for the universities is technology transfer and, of course, it is that third aspect that the government seems to be particularly enamoured of with their

centres of excellence. Frankly, we think they are putting the cart before the horse. Unless we have a good basic research foundation in our universities in terms of people to do the research and equipment to do it, the centres of excellence program, we feel, is going to be less fruitful than it might otherwise be.

The final major issue, which again was addressed by COU, is that of accessibility. It is a complicated issue--there are lots of dimensions to accessibility--but it is nevertheless a very important one. Again, I will not restate the COU arguments; you have heard those. But I will pick up one point that I think they made reference to--they certainly did in their news conference subsequently--and that is that not only we should be asking ourselves about which students should be going to university and how many should be going, but we should also be asking ourselves, "Accessibility to what?" because the quality of post-secondary education in this province now is in jeopardy, and it is in jeopardy because of the many years of neglect and many years of underfunding that we have suffered. So we should very definitely be looking at accessibility, but, as I say, we have to look at it in many ways.

Again, some recent anecdotal information from my own university, that of Western Ontario. One of our major faculties at Western Ontario has had, over the last 10 years, a 25 per cent increase in students and at the same time a 30 per cent decrease in faculty; therefore, a high student-faculty ratio. Not only that but part of that slack has been taken up by hiring part-time faculty on limited-term contracts, and in some programs over 60 per cent of course registrants are taught by part-time faculty.

There are many dangers to this, but not the least is that a university faculty position is a complex one. The tip of the iceberg--it is a fairly large tip, but nevertheless--is the teaching. That is what most people see: You imagine a professor standing up in front of a classroom teaching. But another large part of a professor's job, at least one half, is research, and part-time faculty cannot get involved in research. They are hired to teach their two or three courses, for which, frankly, they are paid a pittance. We have people with PhDs teaching three courses earning \$18,000 a year, and they are not expected to do research. They are certainly not encouraged to do research. We do not have extra facilities for them, and they cannot get funding for research as part-time faculty. That impacts on the quality of their teaching.

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It was said this morning that teaching and research at the university are inextricably entwined. It is the research component in the university which makes teaching at the university unique. I do not think it is any exaggeration to say that the two are absolutely indivisible in the university. You cannot have teaching without research at the university level. It may vary from discipline to discipline, but in general terms I believe that is very true.

Looking at all of these three major problems, then, and looking at the kind of solutions that we think are necessary--hiring more faculty, hiring more staff, upgrading equipment, upgrading libraries, and also removing differential fees, something to which I have not spoken at length, but we believe that is an important thing to aim for--leads us to a total bill of about \$500 million. It seems like a lot of money, but it is, I believe, a worthwhile investment in the future. In fact, if we do not, it will cost us a great deal more.



I think it is important, and again I hear from members of this government that they also think it important, that Ontario become, if it is not already, a world-class centre in every way. We are competing now on a world stage. It is no less important that Ontario build up and maintain a world-class university system. Nothing less than being number one in Canada will do. In fact, I suggest to you that that may not be enough. We have to aim our sights higher. We have to aim to be internationally competitive.

Mr. Chairman: Thank you very much. It was, may I say, a slightly harsher perspective, I suppose, than we have been generally hearing from the university community I have heard in my own area, but, in any event, it is a provocative one. Mr. Morin-Strom has a question.

Mr. Morin-Strom: Thanks to OCUFA for making its presentation to us. I think it is a timely one, following up on the presentation we had this morning.

I would like to ask about the centres of excellence program, which kind of follows up on some of the questions that were brought up this morning regarding the interrelationship between the teaching role and the research function and the drastic shortage of funds for research. This government certainly has not acted on the requests from the university community over the last year, despite the fact that we had an election in the interim. Normally, that is the time when governments do act if they are ever going to act.

The one area the government has been promoting, though, is the high-tech \$1-billion technology fund it is supposed to spend over 10 years. One of the centrepieces has been the centres of excellence, which are being located at various universities around the province. I wonder if you could tell us roughly what you think the impact of those centres is going to be in terms of their effect on total financial resources being made available to the university--is it going to be a significant addition to the universities?--and what impact it might have on staffing, particularly the numbers of good-quality teaching staff that will be available and will have any impact on things like student-teacher ratios.

Dr. Starkey: We have not yet seen the contracts which are being signed with the individual institutions, so the details we do not yet have, but I think some of the general outlines are fairly clear. In fact, I think they were clear even before the individual centres were announced.

Our concern with the centres of excellence is certainly not that there should not be centres of excellence. In fact, we have argued in the past that centres of excellence have always developed in the universities; they have developed spontaneously. What we are looking at here, however, is an attempt to forcibly graft onto the universities selected centres of excellence, and what that is going to do to the universities, we believe, is to have a very strong steering effect.

If you have an underfunded research situation, as we have in each of our universities, and suddenly you dangle the carrot in front of that institution to do a particular kind of goal-oriented research, it will cause research to be done in that area. That, after all, is presumably the purpose for which the centres of excellence were established. But we believe that that is likely to have a very distorting effect on the rest of the research effort in the university, which is already very fragile.



I can give you one or two examples that I think would not--I mean, I agree this is projection, but I do not think it is too farfetched. I can foresee it very easily happening as follows. Take computer facilities. Some of these centres of excellence studies are certainly in the area of high-tech, cutting-edge research. They will certainly be resource intensive, and among the resources that will be used intensively will be our computer facilities.

The computer facilities that will be used now will, of course, be--as they are in my university--paid for. If I use the computer, I pay so much during the day, so much in the evening and so much on the weekend, with a sliding scale depending on when I use it. The danger with these centres of excellence, especially if they bring in industrial staff, is that industrial staff, by and large, will probably work nine to five. They will therefore need to get onto those computers between the hours of nine and five. They will have the money and be prepared to pay the high daily rate. I cannot afford to pay the high daily rate out of my research grants, so I normally compute in the evenings anyway. Occasionally I compute in the daytime, but I will no longer be able to compute in the daytime, because there will not be time available. I think my own use and other people's use in my position will get pushed ever more out of the nine-to-five time.

I think the same thing is going to happen with the libraries. The libraries are already strapped. Just recently I suggested that we start to subscribe to a new journal in my own discipline, a journal that started up just before Christmas. I was told: "If we add that to the list, something has to go. What would I suggest go?" I have not yet made my decision as to which should go, but if we now start loading on new initiatives through the centres of excellence, that same thing is going to start impacting on the library. Those centres will want those particular collections built up for their own purpose. It is only natural; I am not complaining and saying they should not, but what it will mean is that it will therefore detract scarce resources from other people in the universities. I think it could have a very bad effect on the universities in the long run.

Short term, maybe it is fine. We are getting a bit of extra money. We are getting some research. Some things may even be published. I would hope that all the research would be open, although that is by no means clear. But in the long term I think we are heading for disaster unless we build up the basic research function in the university at the same time.

Mr. Morin-Strom: When I was getting out of university, one of the options for me was to go into academics. At that point, in 1977-78, tenure track positions were virtually closed in the Canadian university system because of lack of expansion and no commitment to new staff levels. Has anything really happened over the last 10 years to allow an infusion of new faculty and new ideas onto our faculties? I guess what I am getting is, what has happened in terms of the numbers of faculty? I guess what I am directly asking is how big your association has grown or changed over that period and whether we have a problem with an ageing faculty and an inability to get the best young people coming out of, say, PhD programs to stay in academics as professors.

Dr. Starkey: The number of faculty, certainly of full-time continuing faculty, which is the lifeblood of the university, has remained remarkably constant over the last 10 years or more. At the same time, student numbers have been increasing. You heard this morning that just this current year the number of undergraduates going into first year increased by seven per cent; next year it is expected to increase by 10 per cent; and by the year

1990, 20 per cent. There is not a concomitant increase in the number of faculty, so student-faculty ratios are increasing.

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There are no more tenure track positions opening up. If you take my own department, we lost two faculty members in the last two years. We were able to replace one of them, and for the other we have a two-year limited-term contract. The person in that two-year limited-term contract is aged 30, has a PhD and one year post-doctoral experience. His salary is \$24,000 a year. That is not a hell of a good salary for somebody who spent 30 years of his life preparing himself for an academic career. It is not a very attractive proposition. He happens to be something of an idealist, which I guess is what most of us are when we start out in this profession, but idealists are getting rather thin on the ground now.

I think the answer to your question is that we are not increasing the number of faculty and we are not increasing the number of tenure track positions. The result is that we are producing an ageing professoriate, as you suggested. It is not that professors get older at anything faster than one year per annum; we do that just like everybody else does but we are not hiring new, young faculty members. That is why there is a gap at the lower end, rather than people hanging on at the upper end, which is causing this shift. That is something which concerns us a great deal.

We have essentially lost at this point--as I say, we need 1,500 more faculty. That is over 10 per cent of the faculty. That is what we need to add right now to bring down our student-faculty ratios to what they were 15 years ago. That represents more than a generation of scholars. We have lost a generation of professors in this province. If we do not do something soon, we will be losing more than a generation.

Mr. Morin-Strom: I wonder if you would characterize the government's approach as one to try to ensure that each university gets one of these centres, in fact, will at least have one area where it can maintain some kind of growth in research capability and, hopefully, hire some additional staff, as opposed to the kind of comprehensive and certainly not flashy approach with fancy labels, which I think you are suggesting is required, which is an overall commitment to universities and to academics in general, allowing the university community to determine where the best-skilled people are and to respond to demands of the student population, as well as to where they want their programs.

Dr. Starkey: I would certainly characterize the government's actions in that way too. I think what we would say is along the following lines. If we had, as we did indeed have until the 1970s, a healthy, adequately funded university system in this province--and it has been proved in other parts of the world, too--whenever you have such a healthy, adequately funded university system, you always have centres of excellence, you always have centres of entrepreneurship. You do not have to graft these on to the system, because they develop by themselves.

For this government and any other government--the federal government seems to be in the same game--to graft these centres on to the university does give them something quick and flashy and something that they can go to the media about. Maybe they will invent a new widget, but the basic research is not being done. Ten years down the road when this program is finished or eventually renewed, we will not have replaced the basic ideas, the basic

understanding, the basic knowledge on which the next generation of science and technology is going to be based.

Just think back, if you can, to the time when I first came to the University of Western Ontario, about 25 years ago. If the universities had been as badly funded then as they are now and the government of that day had decided to put in centres of excellence, how many computer centres do you think they would have established? The answer is none.

There were no computer centres established because there was no computer science until about 15, 20 years ago, and I think that they are basically buying into dead technology again. Maybe I should rephrase that. They are not necessarily buying into dead technology, but it is not clear that they are buying into the new technology because we do not know what that is yet. That is what we are likely to miss.

Mr. Pelissero: We have had a number of submissions today, and it seems to be education day all the way up from the Ontario Public Education Network presentation this morning, followed by the Council of Ontario Universities presentation and then yours this afternoon. Throughout it, recognizing that we have finite dollars and cents, what would your reaction be to the possibility of a tuition fee increase and what magnitude do you think the student population would accept, if any?

Dr. Starkey: We have always been of the view that the tuition fees, as they currently exist, seem to be about right. We do not have a hard-and-fast policy of what they are. That seems to be a reasonable level and for them to increase by cost of living seems to have been acceptable in the past and is probably something we can continue to live with into the future.

I would point out that at the present time, the students, as is mentioned in our brief, are paying more than twice as much in fees for that education as is the province of Ontario. So maybe, if you are going to double the student fees, we could also start doubling the contribution from the province. That is one way to go.

The danger with fee levels is an obvious one, that is, that we do not want to see student fees become a deterrent to entry into university. Entry into university, in our view, should be based on students' ability, not only their ability to get in and to study but also their ability to cope with a university education. That should be the only criterion. If we get those people into our university, it is not only for their good but also for the good of this province and indeed for this country that they are there.

It is not that we are giving the students anything. We can be very selfish about this. Producing a well-educated, highly qualified citizenry is in everybody's interest, but we benefit from this. We benefit from it in the things they do. We benefit in an improved standard of living. We benefit from it economically and we benefit from it in a whole host of ways. So I do not think we should get ourselves into the mindset that we are giving the students a handout, because we are not.

If you look at it that way, then the level of student fees becomes rather different. If we adopt the attitude that we are not giving them a handout, what is the purpose of a student fee? Why do we have student fees at all? Should they be zero or should they pay the whole shot for their education, or where should they be in between? That is a philosophical argument. We could talk about it for a long time. All I suggest at the present



time is that the short answer is, it seems about right at the moment, provided we maintain a good student assistance program to make sure that those who cannot afford it can still get into university.

Mr. Pelissero: I was just responding to the graph that the COU showed in its brief in terms of a public level of support versus a private level of support in Ontario as against the United States,.

Dr. Starkey: I do not think I have that.

Mr. Pelissero: What I am referring to is on page 8. What they did not show on their graph was the private level in Ontario--and I am assuming private to be the student tuition fees plus corporate donations. That might be an accurate assumption. It is just a question if in fact we want to world-class competitors, we are not spending enough and people recognize that. It has to come from some place.

We also heard from the COU presentation this morning that, in fact, \$6 billion is coming from the private sector in the US and a corresponding figure in Ontario would be \$400 million, but our corporate sector for whatever reason kicks in about \$40 million. To me, that is a very large gap if the businesses expect higher-qualified individuals and are not willing to help pay for that. That might be an area we may want to give consideration to.

Again, that could be done in a number of different ways. It is just that we are into a situation where percentages--as you say, you can crank out all the figures you want, but at times that does not necessarily help advance the cause because people all say their percentage of the pie has not maintained with everything else. Yet the two largest expenditures of the Ontario budget are health and education, are they not? So when we have to consider it with respect to the rest of the sectors that appear before this committee, in terms of our recommendation, we have to go through a thought process to say--well, you heard the group that was before you with respect to social justice and helping those who are in poverty.

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I am just trying to make sure that we have explored all the avenues in terms of not only the government bearing its responsibility, which is right and so, but also the corporate sector vis-à-vis higher education and all the other things that flow into that. Again, I recognize that the hard services, the physical plants, as they say, need replacing. If somebody steals something you are out of luck, or if it happens to be leaking. Brock University is an example which is very close to my riding and in need of some repairs. I am just looking for some advice and direction as to where you think we can get the money to pay for all the things that we are supposed to be doing.

Dr. Starkey: I think the one thing that was mentioned by the COU group was that one also has to look at that in context. I guess it is true, although we do not have the numbers that \$600 million is going into universities from the private sector in the United States.

Mr. Pelissero: Was it \$600 million? That was the comparable figure. It was \$6 billion in the US. The comparable figure in Canada--

Dr. Starkey: What are a few zeros between friends? I will even accept \$6 billion. But I venture to suggest that all of that \$6 billion is probably going into a very small percentage of their degree-granting



institutions, probably no more than 20 or 30. The vast majority of the universities in the US, the degree-granting institutions in the US are probably receiving nothing from the private sector.

In Ontario we have a very different situation. We have only one university system and it consists of publicly funded institutions. We do not have the private institutions they have in the States, so the context is different. I think that is part of the reason.

I think too if you look at the money that goes into the universities, even in the States, certainly when I think of the universities I am familiar with--I was in Berkeley for three years. They certainly get a significant amount of money from nongovernment sources. I think you will find that at least 95 per cent, maybe even 100 per cent, of that money is oriented towards research. It is not to support undergraduate teaching; it is into research.

Mr. Neumann: Most of my questions have been asked by other members so I will simply say I found your presentation quite interesting and ask the usual question I do with regard to your attitude towards the current budget deficit which is projected to be around a billion dollars in Ontario. In increasing the funding of universities, do you feel we should be cutting spending, raising taxes or increasing the deficit, or all three or any combination thereof? Which is your preference?

Dr. Starkey: I do not want to answer that question because that after all is the role of the government. What I will do, though, is suggest the following. As bad as the situation might appear now in terms of the fiscal situation, if we do not invest in universities, these will look like halcyon days. Twenty years from now we will be in one hell of a mess. You will not be talking about a \$30-billion deficit. You will be talking about deficits that are astronomical because the money spent in the universities today is an investment, and it is a long-term investment.

Another point I did not make in that presentation but I will make now because I think it is germane to what we are discussing is that the universities' time frame is a very long one. The faculty member who will be hired in the year 2000 with his or her bachelor's degree, master's degree, PhD and post-doctorate experience will be entering university this September. That is how long it is going to take for that individual to become qualified to teach and do research in a university. If we delay a year, it will be the year 2001. If we delay five years, it will be the year 2005 before we start producing those kind of people. It is a long-term investment. If we do not make that investment, as I told you, we will be in very sad straits.

Mr. Newmann: I found that example interesting because I have a daughter entering university this September. She is number two.

Mr. Chairman: Are there any other questions? We appreciate your submission to us. It has been valuable to us. We have had, as Mr. Pelissero said, a number of different perspectives from the university community. On Monday, we will be receiving the student version. From their brief, I think they will be endorsing a lot of what you are saying. Thank you very much.

Dr. Starkey: Thank you, Mr. Chairman.

## ORGANIZATION

Mr. Chairman: In accordance with a decision made at 10 o'clock this morning, I would like to discuss what Ms. Anderson will be doing over the weekend. She has been taking copious notes. The question is whether it should be in camera. It was raised earlier. I left it open to discussion. My lone thoughts are that maybe it should not be in case there may be a dispute later as to what we said right now.

The problem is that we are putting a lot of pressure on the researcher to pick up all the various suggestions that have been pouring out to us and will be pouring out to us on Monday and Tuesday and have them in some sort of order for us to be reminded of on Wednesday and Thursday. She wants a little direction from us now so that she can be certain what she is doing is what we want.

Mr. Neumann: It is quite simple. We could all agree.

Mr. Chairman: And make sure none of us gets into political trouble.

While you are distributing that, I will just mention that last year--we have a couple of copies of last year's report here--we talked a lot about the process. It was the first time we had done it. We were strapped for time then as well, but not quite as much as this year. We also spent perhaps an inordinate amount of time reviewing the grey book from the Treasury in a lot more detail than we did this time. We drafted a report that was based, at least in form, on following that up and then coming up with solutions. Ms. Anderson has started to do that again, not knowing where we would be leading her. Perhaps you would like to take over now and ask us some questions.

Ms. Anderson: It seemed to me that one of the ways that would facilitate what was going to happen on Wednesday was to decide on the issues we want to address specifically. Then over the weekend and as we go through, I would take out the observations and recommendations from all the briefs we received and put them under those issue heads so that you could then discuss them and come up with the recommendations on Wednesday.

I do not how far along in that process you would like me to go and whether that is even a way that is helpful. What I have given to you at the moment is the headings you went over last year, along with the headings that came out of the budget last year, which is on the sort of double page. They kind of match up.

Also, I have taken the headings from last year and put in some suggested subheads: Under "Ontario's Competitive Position," whether you want to include tax reform there or have tax reform as a separate issue, whether you want to look at different--adjustment assistance (inaudible) higher education and put that in under that kind of section as one unit. I just want to have your thoughts on how to approach this.

Mr. Haggerty: I want to make reference to our last year's report. How successful were we in some of our recommendations? Have we got any track record or record of what--

Mr. Chairman: It depends what party you are in for an answer to that. OK, you are asking the question.

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Mr. Haggerty: I just want to know because some of them appeared again this year saying, "Our recommendation was 60-40 and we know the government has not moved in that area, although it has provided additional funding but not to the percentage point."

The other one is, how many submissions did we have last year compared to what we have this year? Is there a drop in the submissions?

Ms. Anderson: Yes.

Mr. Haggerty: What numbers are we looking at?

Ms. Anderson: About 40 this year.

Mr. Chairman: I am not going to answer because it is really a--

Mr. Haggerty: No, I just wanted to know if we had taken a look.

Interjections.

Mr. Chairman: The number of presentations has dropped in part because we have not encouraged them as much because of our time restrictions. You will recall the Treasurer (Mr. R. F. Nixon) saying that if you do not get it in by the end of February, you may as well not do it. We decided that free trade had pre-eminence so we are compressing this to two weeks. All we did was put ads in the paper and we have been responding to the response. We have not sought out those groups that did not respond. In fact, we have at least one group that we may not be able to work in. That may be part of the reason. Last year we were more active. I think we may have written letters, which is the norm.

Mr. Haggerty: It seems to me you are looking at perhaps double the number of representations last year compared to what there are this year and I was a little bit concerned about it.

Mr. Chairman: All these groups are groups that basically are seeking us out and that is because of our time situation.

Mr. Pelissero: I may cover some of the points that Mr. Mackenzie may touch on because we heard the Treasurer say that if you do not get it in by such and such a date, it may or may not be considered. Given that we have had half of the submissions, we may want to talk about some of the things that Michael Wilson identified in his budget as possible tax reform and we may want to make some recommendations around that. Certainly, we would want to talk about free trade and some of the submissions that made a direct reference to free trade.

You are not going to produce a volume like you did last year for the simple reason that we have identified the process as a good process, that we need more time next year and that there are all those time constraints. All we may end up doing is reviewing the recommendations we made last year. That would be useful for the committee to take a look at and see if we want to either build on them or just reinforce them.



Mr. Chairman: Are you suggesting we should be commenting on the extent to which we--

Mr. Pelissero: Were successful.

Mr. Chairman: --influenced the Treasurer?

Mr. Pelissero: I do not think it would hurt.

Mr. Chairman: OK. That is something we may need to do, look at last year's report and last year's budget.

Mr. Pelissero: Even a summary of recommendations may cover it off, particularly for me and maybe some of the other members who are new who would not have been part of that process.

Mr. Mackenzie: Inasmuch as there are less submissions--I was not part of it last year--is it the intent to do any kind of a summary or at least a summary where there is a common theme running through the submissions we have this time, and in particular where it relates to recommendations we made that were or were not fulfilled last time? It would seem there is some merit in that.

Ms. Anderson: Do you mean a summary of the briefs?

Mr. Mackenzie: The various presentations where they seemed to concentrate on the same recommendations or suggestions. In particular, is there some way that can be tied into similar recommendations that we actually made a year ago and their comments as to whether there is or is not progress on it?

Mr. Chairman: I think what we hearing is what you were saying, Mr. Haggerty.

Mr. Haggerty: That is what I am saying. If nobody is going to be listening to the recommendations of the committee--I am not quite sure they have not listened to them--the question is, how effective is this committee? I was a little bit concerned when the number of submissions was down considerably and I thought perhaps they had looked at it and said there was no use appearing before this committee because it carried no clout.

Mr. Chairman: As I recall, the Treasurer in his budget last year claimed in his address that he was influenced by the committee. Obviously, it is an awfully partisan question. I would be surprised if we were going to get a unanimous answer to it, but it is something that probably we should address.

Mr. Morin-Strom: I have a problem with us trying to address any kind of recommendations which are very substantive in nature, particularly any which get into philosophical or economic issues in which there are fundamental differences between the beliefs of social democrats or socialists as opposed to the free enterprise Conservatives. We have to face the fact that politically we are very different parties here.

We are going to attempt to do that on free trade. It is a big subject and is very difficult to do. It will almost invariably result in minority reports. If we try to do that on free trade as a part of this, if we try to do that on tax reform as a part of this, it is an impossible task. We will not receive unanimous agreement on the recommendations. Do not think that we are



going to--at least I am not and I imagine Mr. Mackenzie as well--agree with some of the recommendations we have heard here from a lot of the witnesses.

They may sound good and maybe are acceptable to one or both of the other two parties, but if we philosophically disagree with them we will not endorse them as part of the recommendations of the committee as a whole. We will be insisting on writing minority reports. I do not know how long that may extend the process.

My recommendation would be that we provide a service to the Treasurer by providing objective summaries of all the recommendations that have come from the various groups. I think our researcher has been doing that in terms of summarizing what the people have done. We do that as a service to all these organizations. At least as a part of our report, as an appendix or whatever, we say, "This is what each group has asked for and is recommending," without our trying to be objective. We may want to on a lot of them, but I am saying that as a service, we should have that kind of comprehensive summary of what everyone has proposed, and say: "This is what we have heard. This is what they want the Treasurer to do. If they have not gone to you directly, this is what their point of view is."

Then the issue comes separately as to where we want to try to reach a consensus between the three political parties and make recommendations. I think one of the important areas is in terms of budget process, whether this is a worthwhile process, whether we are getting anything out of it. Even that may be difficult to reach consensus on. Otherwise, there may be some specific ones coming from specific organizations we can reach a consensus on.

I myself am not too interested in approaching this so that a special interest group that happened to be able to appear before us is able to get a specific recommendation from the committee. I am more inclined to try to reach some agreement on some of the issues that may have been brought up which extend across a number of presentations which we may see as broader-based irritations about taxation policy in a limited sense as opposed to the overall tax reform or how the government is redistributing its revenues across the province as a whole.

I see some real problems in trying to address philosophical issues in which there are recognized differences from the left wing to the right wing in our society and certainly within the three political parties with the time frame we have.

Mr. Chairman: I understand what you are saying. I know we had problems last time doing it. I am happy and grateful that we were able to actually do a unanimous report the last time. I know we had to stretch it, particularly with the definition of "full employment." I think we all agreed on a resolution but we were all disagreeing to some extent on what the resolution meant and that was a problem.

I think what you are saying is that it would be easier to get a unanimous report if it was simply a précis of the submissions, but I do not know whether it would be really as valuable to the Treasurer and I do not know whether it would be as valuable to us as individual legislators. It may be that we have to go the route of minority reports. I do not know this time out, but I think it helped to strengthen our committee last time to be able to do a unanimous report. I think it would be unfortunate if we did a report that did not say anything in the way of our own opinions. After all, we are supposed to be legislators and we have been given this opportunity.

1700

Mr. Morin-Strom: I just feel reluctant to attach opinions on the very limited number of presentations we have had, what I would perceive as basically talking to special interests that have had the opportunity versus a lot of other special interests that have not. We end up saying, "We should be advocating this and that because these guys managed to make an appearance and talked well or convinced us," but then there are all kinds of areas that you do not address.

Mr. Mackenzie: I think the summary Karl is talking about makes some sense. I think he did very well in summarizing as to where we had some common themes and where there was some reference to things that were recommended and were or were not done last time around. I do not think that would necessarily weaken it.

It does not mean that we cannot have some consensus in our recommendations. I think first you look at the summary of the kind of recommendations and then we find out whether or not they are recommendations we can all agree on, although that will not necessarily cover all the points of view on an issue, and second, whether or not you want to put in any wild-card recommendations at all as to other potential methods of raising taxes. That is something else, whether it is a specific recommendation or just some alternatives that the Treasurer should look at without a hard recommendation from this committee.

For example, I have just been reading three of the rather major new tax-raising methods that have been used over the past two or three years in Manitoba. One of them is the payroll tax and what it raised, and the increase from one per cent to 2.5 per cent that they had in the second or third year of using it. One is the minimum tax and the provincial income tax raise, which have all proved to be more progressive taxes. All have had some detractors as well as supporters. I am not saying we recommend those, but whether or not as well there is a suggestion made in the committee's report that there might be other taxation methods that the Treasurer should be looking at.

Mr. Chairman: One thing we did last year was we decided to stay away from absolute numbers, because we did not feel we had expertise.

Mr. Mackenzie: I am not suggesting numbers.

Mr. Chairman: But certainly a direction in concepts. Surely we should have some input.

Mr. Mackenzie: There was a basic argument made by many of them of whether or not--a lot of them dealt with the sales tax or the one penny on the gas or even implied--although they did not suggest--that maybe we should look at tolls on the roads or what have you. Others made the argument of a more progressive income tax based on the ability to pay. At least two or three made that argument. Obviously, that would appeal to me and appeal to Karl, but there may be other suggestions that can be made in a general way.

I am not sure how specific we will be without running into the difficulties that Karl talks about where we just will not have agreement generally in the committee. I do not know how much agreement we could find on even suggestions to look at alternatives, but if it was there, along with the summary which gives an idea of those groups that were before us, it might be of some use to the Treasurer. I do not know.

Mr. Kozyra: I think from that summary though, given that we have a limited number, we will need to do some extrapolating in terms of what they said as it relates to the larger picture and encompass a broad base of the groups that were not here but have similar types of concerns.

I think there should be a common-ground recommendations list as far as is possible. I would not underestimate the value of the recommendations of the group. You are probably better aware than I that some of these things have long germination periods and they do not happen in a year or in the three weeks or whatever that the Treasurer has to work on and then work it in.

It may take two, three, four or five years and I think, for that reason, we should also keep track of the recurring recommendations, go back to last year's and identify those that come up again this year. There is a recurring theme and you build on that. Maybe you can make some comments about that and these are the ones that we can agree commonly that go and in three years from now, may have some larger effect than another one we can identify.

Mr. Chairman: Dave?

Mr. Neumann: Mr. Chairman, I agree with the comments that have been made to this point--that we should try to arrive at a consensus. It seems to me that there is one area where further study will be needed and we talked about that in the very first meeting, that we had three tasks; free trade, free budget consultation and Ontario's reaction to tax reform.

To some extent, the Treasury is going to have to react to tax reform in this budget. Nevertheless, there were a lot of issues raised by delegations coming before us and there are probably a lot more issues which this committee needs to address, related to tax reform. I think that is something that perhaps should be mentioned in the report, that it is a subject we have not fully explored. Let us be honest with ourselves. We have not fully explored it.

It is something we are going to need more time to work on and we should focus on what is manageable, given the limited number of hearings and shortage of time.

Mr. Chairman: Yes, we are really in a vise on tax reform. There is no doubt about it. We have heard a lot of criticisms. We have heard some endorsements. I do not personally feel I really have grappled with it yet. And yet, he has made it clear that he is going to have to do that by April.

Where we can, I think it would be valuable, but also, I suppose, we have to put that comment in. Do you know where we are going?

Ms. Anderson: Everybody wants a summary by group, rather than by issue.

Mr. Morin-Strom: --credits were put right to each group. They should know that their recommendations were passed on to the Treasurer. I see that as the biggest part of the whole study. It may not be the most important part, but in terms of the number of pages, it will be biggest part.

Ms. Anderson: You can do that by issue. You can have--

Mr. Morin-Strom: They are making it--

Ms. Anderson: --comments, and then we will annotate each comment



with the groups that have made that sort of comment.

Mr. Morin-Strom: Yes.

Ms. Anderson: And that also then gives you some idea of the frequency--

Mr. Mackenzie: It gives you a bit of a summary and a little better idea where they came from.

Mr. Chairman: And we contribute to it all the way through it. Well, that is, yes--

Ms. Anderson: And that the government should increase funding by 60 per cent and these groups say that.

Mr. Chairman: But it will be more valuable to deal with the issues than the groups, yes.

Ms. Anderson: Yes.

Mr. Villeneuve: Yes, I would think so, Mr. Chairman. And also, we may get areas, believe it or not, where there is a consensus and I think we should have some emphasis put on those particular areas, because I think there is a fairly strong message there. If we do have consensus in this particular committee on certain issues, I think the Treasurer and his staff should be made well aware. There was full consensus in this committee on X, Y or Z.

I think they should be grouped, as opposed to individual reports, because as I heard them, the gist, the theme on education was pretty much the same. The labour movement, I think there were a couple of presentations and that gist was again pretty well in the same direction. So I think by groups, interested groups, would be better than by individual.

Mr. Chairman: And you are saying both consensus of the groups and consensus among us?

Mr. Villeneuve: Yes.

Mr. Chairman: I think that politically it helps the opposition to be able to, if the current Treasurer does not do it, say, "Look, this was a unanimous suggestion," and it helps the Treasurer if he does do it.

Mr. Villeneuve: Well, then, we will know if there was weight that was given to our hearings and let us hope that there will be a little more weight given to this particular committee than there was to another on Sunday shopping.

Mr. Chairman: Karl?

Mr. Morin-Strom: Yes, my preference would be if the whole report were done by consensus and that we ensured that every recommendation that we make as a committee is a consensus one and if they are, the report as a whole is much stronger.

But to do that, we may have to be tough on what is actually in the recommendations, not throwing in a lot of extraneous stuff, but really focusing on what we can get consensus on.



Mr. Villeneuve: We will be away above politics on this one.

1710

Ms. Anderson: We will come back with a summary of recommendations on Wednesday.

Mr. Neumann: My original recommendation stands. Your direction is, write up something we can all agree with.

Mr. Mackenzie: I will copy, sort of a sardonic speech actually, but I will copy the page that has three or four specifics in the recommendations that are here. I will just pass it on to the committee on Monday. We might discuss whether it is worth including it in the report in our next discussion, even without specifics because I know we would probably never agree on that, whether some alternative methods might not be suggested from the committee as well, which might spark some future discussion on new taxes or methods of taxing or tax reform.

Mr. Neumann: I think Bob raises an interesting idea. He has obviously researched Manitoba for a reason, but maybe we should be looking at all other nine provinces to see whether there are some ideas out there.

Mr. Villeneuve: A heritage fund.

Mr. Neumann: We could tax our oil industry.

Mr. Chairman: Western Ontario. That is just what we need. How could we get material from other provinces quickly? It may be something we can talk about in the future unless either Treasury or research can come up with something, or any members can come up with something of interest.

Mr. Mackenzie: This sheet is just one input before we discuss it.

Mr. Chairman: Yes, but I am glad we have got it. Ontario is not the font of all knowledge on these matters. It may have the best antipoverty system in the world, but it is not--

Mr. Villeneuve: Forty-two years of good previous administration.

Mr. Chairman: I should mention that I have written to two people as a result of Ray's negotiations, asking for proposals in regard to the constitutional legal report, in accordance with the terms of reference that were distributed earlier today.

We are in room 151 on Monday but, unfortunately, because of a decision made by the House leaders, giving pre-eminence, and one of the House leaders was here today and perhaps he could be lobbied as well as the other two, if we can find ours, wherever he is, I did not know they were discussing this, but they made a decision last Thursday that the select committee on the Constitution and the standing committee on public accounts, in that order, be given pre-eminence in room 151. I am not happy with that because the three committee chairmen had divided up time fairly equally, the three committees that were interested in that room, and as a result of that, the bureaucrats decided to take away 151 from us on Tuesday. We were going to be there both Monday and Tuesday of next week.

Mr. Haggerty: --the chairman for Metro Toronto, and they have to

have all the press.

Mr. Mackenzie: On the other hand, the constitutional one is a hot one.

Mr. Chairman: It is a hot one right now.

Mr. Mackenzie: I am not saying they are necessarily wrong.

Mr. Chairman: In any event, our last glory there is on Monday.

The committee adjourned at 5:15 p.m.



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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

PREBUDGET CONSULTATION AND TAX REFORM

MONDAY, FEBRUARY 22, 1988





STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)

Haggerty, Ray (Niagara South L)

Kozyra, Taras B. (Port Arthur L)

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Morin-Strom, Karl E. (Sault Ste. Marie NDP)

Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Pollock, Jim (Hastings-Peterborough PC) for Mr. Villeneuve

Polsinelli, Claudio (Yorkview L) for Mr. J. B. Nixon

Clerk: Carrozza, Franco

Witnesses:

From the Association of Municipalities of Ontario:

Brick, Doris, President; Councillor, County of Peterborough

Hopcroft, Grant, Vice-President and Chairman, Fiscal Policy Committee;

Alderman, City of London

Curran, John, Administrative Vice-President; Administrator-Clerk, County of Essex

Eddy, Ron, Member, Fiscal Policy Committee; Reeve, Township of South Dumfries

Clarke, George, Member, Fiscal Policy Committee; Commissioner of Finance and City Treasurer, City of Toronto

From the Ontario Federation of Students:

Weir, Sheena, Chairperson

Potter, Shelley, Chairperson-Elect

Butcher, Robert, President, Western Society of Graduate Students

Sékaly, Gabriel, Executive Director

De l'Association canadienne-française de l'Ontario:

Marchand, Jacques, président

Lengyel, Catherine, Relations gouvernementales

From the Ontario Association of Alternative and Independent Schools:

McBurney, Lyle, Executive Director

Hordyk, Arthur, President

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Monday, February 22, 1988

The committee met at 1:04 p.m. in room 151.

PREBUDGET CONSULTATION AND TAX REFORM  
(continued)

Mr. Chairman: I am going to call upon the first group to come forward, the Association of Municipalities of Ontario. There is a large group, as I understand it, that will be taking part in the proceedings. Perhaps you could come forward and take seats along here and identify yourselves.

Mr. Polsinelli: Are we not missing representation from one of the parties?

Mr. Chairman: Yes, we are.

Mr. Polsinelli: Perhaps, Mr. Chairman, we can indulge the Conservative Party for a few minutes and see if they are interested in sending a member today.

Mr. Chairman: If that is the wish of the committee. All right.

The committee recessed at 1:05 p.m.

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Mr. Chairman: I would like to welcome you to the meeting of the standing committee on finance and economic affairs. This is called the finance committee here in the provincial Legislature. Perhaps I should tell you what it is we are doing here. We are having a series of prebudget meetings in which associations and individuals throughout the province can come and appear before us with ideas and concepts as to what they feel should be in the provincial budget. The results will be worked into a report which we will prepare and give to the Treasurer (Mr. R. F. Nixon). He has indicated his intention to bring down a budget some time in the month of April.

We have already had a week of hearings last week. We are going to be hearing from a number of groups today and tomorrow and then writing our report. If you are interested in watching this afternoon, we will be hearing immediately from the Association of Municipalities of Ontario, followed by the Ontario Federation of Students, l'Association canadienne-française de l'Ontario and then the Ontario Association of Alternative and Independent Schools. We will be hearing tomorrow, but we will not be on television, from the Canadian Federation of Independent Business, the Board of Trade of Metropolitan Toronto, BOOST--the Blind Organization of Ontario With Self-Help Tactics--and the Ontario Trucking Association.

If you are interested in our proceedings and would like to see more of us on television, I invite you to write or phone one of the House leaders of the three provincial political parties and give that indication to him. That would be the Honourable Sean Conway, room 193, Legislative Building, Queen's

Park, M7A 1A1, telephone 965-4062, or, in the Pembroke telephone area, 613-735-6627; David Cooke--that is not myself--room 211, Legislative Building, telephone 416-965-6386, or, in Windsor, 519-944-4343; or Michael Harris, room 160 in the Legislative Building, Queen's Park, M7A 1A1, telephone 416-965-5365, or, in North Bay, 705-474-8340.

Now we have with us the Association of Municipalities of Ontario and, without further ado, I ask the spokesperson to introduce herself and those who are with her.

#### ASSOCIATION OF MUNICIPALITIES OF ONTARIO

Ms. Brick: Thank you very much, Mr. Chairman and members of the committee. Just as I begin, I will introduce my colleagues who are with me this afternoon. I am Doris Brick, president of the association. On my right is John Curran, our administrative vice-president. To my left is Ron Eddy from the county of Middlesex. On his side is Grant Hopcroft, alderman from the city of London. We have with us George Clarke from Metro Toronto and three of our staff members: Mac Dunbar, executive director, and policy analysts Heather Bell and Stephen Dupuis.

Mr. Chairman: Thank you. Your brief has been distributed to members. Perhaps you can lead us through it.

Ms. Brick: That is good. We are going to highlight particularly our recommendations to your committee.

At the outset, the association would like to express our appreciation to the standing committee on finance and economic affairs for its adopting many of our association's 1987 recommendations. In our submission in 1987, the association outlined a number of recommendations revolving around the ability of municipalities to finance the increasing responsibilities being devolved to the local level. The standing committee included many of our concerns with respect to the funding of social services, education and infrastructure in its final report. The association appreciates the standing committee's recognition of the fiscal pressures facing municipalities.

In November 1987, in a statement to the Legislature, the Treasurer announced a 6.7 per cent increase in the 1988-89 transfer payments to municipalities. While this represents an increase of 1.7 per cent from the 1987-88 level of five per cent, the 1988-89 level is still below the projected 1987 increase in municipal expenditures, which averaged 8.8 per cent. Our association has become concerned about the rise in municipal expenditures and has concluded that these rising expenditures are the result of the increased number of new programs devolved to the municipal government and the cost of new and improved legislation and regulations.

Some of the new programs announced within the past year will have an even more significant impact on property taxes: pay equity, extended funding to separate schools, broadening accessibility for child care, community-based seniors' services, higher welfare rates, the upcoming implementation of the municipal-industrial strategy for abatement and stricter standards for waste management. The transfer of responsibility must go hand in hand with the allocation of resources.

The Association of Municipalities of Ontario recommends that the rate of increase in transfer payments to municipalities should be at least equal to the rate of increase in provincial revenues.



A second item I would like to address is the unconditional grants. During the past two years, AMO has worked closely with the Ministry of Municipal Affairs on improving the existing unconditional grants program. We are very pleased with the co-operative approach of the ministry in providing assistance for this project. AMO believes this has been a worthwhile process and thanks the government for the timeliness of the 1988 unconditional grants announcement and for the implementation of most of AMO's recommended policy changes. In terms of the 1988 increase of 5.7 per cent, this leaves approximately 1.7 per cent in unconditional grants allocation for improvements to programs or for real increases, if you will, to municipalities.

It must be emphasized that fairness, equity and stability of the program can only be achieved if more funds are allocated to the unconditional grants program. The association recommends that increased funding for the unconditional grants program be provided.

I will now turn it over to Grant Hopcroft, who is going to speak on infrastructure funding.

Mr. Hopcroft: As you are aware from previous submissions and, in some cases, from previous municipal experience among committee members, infrastructure is obviously a very major concern to municipal governments. The funding of infrastructure is essential, as far as we are concerned, to ongoing physical development in our municipalities.

There have been a number of studies done over the past few years highlighting the need for increased spending on municipal infrastructure. In particular, in 1984, The Road Information Program of Canada report indicated that 61 per cent of municipal paved roads would need resurfacing within the next five years at an estimated cost of \$3.4 billion. To meet this need, spending would have to increase over current levels by approximately two and a half times.

In 1985, AMO also supported the Ontario Good Roads Association in its request for an increase of \$75 million in each year for the next five years to meet 50 per cent of municipal roads maintenance and new construction needs. There is a table on page 5 of our brief which indicates for the committee the relative overexpenditure and underexpenditure among municipal governments on roads needs.

The first line indicates the number of municipalities that are currently spending within current federal Ministry of Transportation and Communications subsidy guidelines and are making full use or less than full use of the allocated MTC subsidy. The next three lines indicate those municipalities that are now spending, in essence, more than the existing subsidy. They are taking up the full subsidy which is allocated to them and putting 100 per cent municipal dollars into the system as well.

You will note that in the 11 per cent and up category, in 1986 there were 330 municipalities that were spending \$105 million, 100 per cent municipal dollars, on roads, construction and maintenance in this province. Of that number, 25 municipalities have expenditures of over \$1 million each of 100 per cent municipal dollars.

We recognize that there was some money allocated last year to address our concerns and, in fact, the roads budgets were increased last year by four per cent maintenance and three per cent new construction and there was, in addition, the Ontario municipal improvement fund allocation of \$30 million, representing a total overall expenditure increase of 9.5 per cent.



It should be noted, however, that, of that, over half was taken up by the Ontario municipal improvement fund allocation and less than half went towards across-the-board increases for municipal members. So it appears that municipal governments have been forced to draw funds from other priorities to meet the increase in demands and needs for roads maintenance in the province.

We note there are several programs that have not received any allocations for the last few years: the program for unincorporated areas, the sidewalks programs on King's highways and county roads and the municipal transportation planning program in 1987 was unfunded as well. Therefore, the association is recommending that the provincial government review the current municipal deficiencies and the overexpenditures above subsidy levels with a view to increasing the Ministry of Transportation budget for municipal roads in 1988.

Tied in very closely to roads in the overall infrastructure picture are, of course, sewer and water needs. The association, while being supportive of the government's initiatives to improve the quality of the environment, is very concerned about the financial impact on municipal governments. Specifically, we are very concerned about the financial impact of the impending municipal-industrial strategy for abatement program, which is to be implemented in 1989.

Currently, in the municipal sector, there are 407 sewage treatment plants. According to 1987 ministry statistics, 169 or 42 per cent of these plants are municipally operated while the balance, 238 plants, are operated by the Ministry of the Environment.

Within existing criteria, a number of these plants do not meet effluent requirements for 15 conventional pollutants. Sixty per cent of those plants are operated by the Ministry of the Environment. They are not meeting current standards, and that is an increase from 1985 when we had 99 treatment facilities that were not meeting criteria. There are now 151. Under the MISA program, there will be 169 pollutants to be monitored rather than 15 and we are very concerned as to the capital impacts of this program on municipal funding.

It is to be noted as well that the Ontario Sewer and Water Main Contractors Association released a study recently indicating that expenditures of approximately \$250 million per year for the next 50 to 60 years would be required to maintain a working sewer and watermain distribution system in Ontario.

It is to be noted in retrospect that the entire provincial funding allocation in the area of not just sewer and water but also waste management was only \$136 million, although we do appreciate that was still a substantial increase over previous allocations.

We are therefore recommending that the provincial and federal governments financially assist municipalities in the implementation of MISA, as the environmental benefits resulting from this program will extend throughout the community, the province and the nation.

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As an association, we are further recommending that the province pursue a trilevel financial agreement for the overall funding of infrastructure.

I would like now to call on John Curran to present the association's position on housing.

Mr. Curran: Mr. Chairman and members of the committee, thank you for the opportunity to speak today. I would like to talk about affordable housing in Ontario.

In the 1987 submission to the standing committee on finance and economic affairs, our association urged the government of Ontario to make a significant budgetary commitment to the production of nonprofit housing during 1987.

The Association of Municipalities of Ontario recognizes and appreciates the province's commitment to providing an adequate supply of affordable housing. We do appreciate the efforts that were made. We are aware that in addition to the 6,700 new nonprofit housing units being supplied annually under the federal-provincial nonprofit housing program and the 3,000 units receiving unilateral provincial funding under Project 3000, last year the provincial government allocated 3,600 units of new nonprofit housing and 1,000 units under the Supportive Community Living demonstration project. More recently, the provincial government announced a \$31.5-million program focusing on short-term emergency shelter as well as long-term permanent housing.

On the ownership side, the province intends to devote some of its own lands to affordable housing and is encouraging municipalities to address affordable housing through land use planning.

Notwithstanding the province's efforts, there remains a housing crisis in Ontario. There are currently 27,000 households on the Ontario Housing Corp. waiting list, and that list will be growing as a result of the minister's announcement of January 23, 1988, that eligibility for social housing will be expanded to include low-income singles, childless couples and empty-nesters and that the one-year Ontario residency requirement will no longer apply. The policy change improves the opportunities of about 90,000 needy households, and that represents a potential for a more than 300 per cent increase in the waiting list.

So much for the demand side of the picture. On page 11 we have a table that might indicate for you the supply situation. There we have listed some of the major urban municipalities in Ontario, showing that the high vacancy rate is in Thunder Bay, 2.2 per cent and the low is in Toronto, 0.1 per cent. The average is 0.87 per cent; less than one per cent of the housing supply is available for vacancy.

There is another problem that seems to be emerging too. Affordability or unaffordability has emerged as a new and potentially more serious problem. The average resale housing prices in Ontario increased by 25 per cent in 1986 and by an additional 24 per cent over the first three quarters of 1987. Carrying costs as a percentage of gross family income have risen substantially, from 20.6 per cent in 1985 to an estimated 25.9 per cent in 1987, and I point out that is in terms of gross income, not in terms of net. You can imagine what the resulting increase would be on net income. The minimum outlay for purchasing a home in Ontario has risen from 51.6 per cent of average family income in 1985 to an estimated 69.7 per cent in 1987. We are talking about downpayments.

The near-total absence of moderately priced housing is forcing many tenants to remain in apartments, which further exacerbates the vacancy

problem. Fewer people can afford to buy homes today than in 1970 in Ontario, and that is the bottom line.

The size and cost of the provincial government's housing programs seem staggering when they are looked at in isolation, but a perspective you might consider is that the Ministry of Housing's allocation for 1987-88 was \$378 million. This represents only 1.08 per cent of the \$35-billion total provincial budget for 1987-88.

The recommendation from our association is that the nonprofit housing allocation be further increased in the 1988 provincial budget.

I will turn now to my colleague Ron Eddy, who will speak to you on social services.

Mr. Eddy: I would like to speak to you about social services, a wide range of very important services to people.

In its 1987 submission to the standing committee on finance and economic affairs, the association made two recommendations regarding social services. The association recommended that the provincial government significantly increase funding for social programs to reflect increased costs resulting from regulatory change and program enhancements, and that the government improve the cost-sharing arrangements for general welfare assistance by expanding the administration component.

Since the time of our last submission, a number of developments have reinforced the need to address the whole issue of how social services are funded.

In June 1987, the provincial government introduced New Directions for Child Care. The central reference point of New Directions is that child care should be a public service, not a welfare service, and that all families must have reasonable access to a range of affordable, appropriate services. The association is currently attempting to define the municipal role with respect to child care. However, it is clear that the property tax base cannot support a public service model of child care service delivery.

On November 1, 1987, the "spouse in the house" rule under the General Welfare Assistance Act was replaced. Under that rule, single parents could neither receive social assistance nor legally pursue support from a person of the opposite sex who shared a common residence. Under the new rules, a single parent will either be eligible for social assistance or have an adult with a legal obligation to support him or her.

By the province's own estimates, there will be an estimated 10 per cent to 12 per cent increase in sole-support-parent case load on an ongoing bases. It is estimated that the new legislation will result in an increase of 8,000 persons to the family benefits allowance/general welfare assistance case load over the next three years. The total cost of the shift for 1988 will be around \$45 million, with additional costs to municipalities approaching \$10 million.

On November 10, 1987, the Honourable John Sweeney announced an \$82.6-million increase in social assistance. The basic allowance was increased by five per cent and the maximum shelter subsidy benefit was increased by eight per cent. At that time, the minister stated: "Five major improvements in social assistance levels have been implemented since 1985. Including the \$82.6 million I am announcing today, those five improvements represent a 22.5 per



cent increase over three years in social assistance benefit levels, well ahead of increases in the cost of living."

Throughout 1987, discussions continued on A New Agenda: Health and Social Service Strategies for Ontario Seniors, the provincial white paper on services. The white paper focuses on improvements in access and delivery of community services and expansion and improvement of community services. Here again, it is clear that the property tax base cannot support the levels of service being called for by the growing seniors population.

Each year the cost of providing social services rises either through increases in the cost of providing the service or through expanding the service base or adding new services, and 1987 was no different. Increases in provincial expenditures for social services have not, however, been commensurate with the expansion of the social services system. In 1987-88, 65 per cent of Ontario's expenditures will be devoted to social services; that is, health, education and social services. This represents only a two per cent increase from 1977-78.

Meanwhile, municipal social services budgets have been experiencing dramatic increases. For example, proposed 1988 budget increases for Metro and surrounding regions range from 16.2 per cent in Peel to 39.3 per cent in Durham.

The limited property tax base cannot and should not be relied upon to finance an increasingly greater proportion of an ever-expanding social services system, particularly when it is already supporting the provincial education system beyond the intended levels.

In this context, the current Provincial-Municipal Social Services Review Committee, which will be reporting on the delivery and funding of all social services in Ontario, represents an excellent opportunity to address this chronic problem and set the groundwork for a more rational cost sharing and delivery system in the future.

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Any future framework should be developed with regard to the access to revenue sources of municipalities and of the province. The principal municipal sources of revenue are the regressive property tax and provincial transfers. The province has access to a far broader range of revenue sources, including the progressive income, corporate and sales taxes, and transfers from the federal government.

As such, the provincial government is far better placed to assume a greater proportion of the cost of funding social services. We would encourage the provincial government to work towards "evaluating the increased financial responsibilities at the municipal level, with the objective of offering relief to the growing municipal tax burden", as recommended by the standing committee on finance and economic affairs.

Our recommendation is that the provincial government, again, assume a greater proportion of the cost of funding social services. The association has taken a position that income maintenance should be funded 100 per cent by the province and that the provincial government should assume 100 per cent of the cost of child care, capital and direct grants and a greater proportion of the cost of child care subsidies.



The next topic is education funding. George Clarke will present it.

Mr. Clarke: The Association of Municipalities of Ontario has a particular interest in the future impact of school funding on the local tax base. According to the Economic Outlook and Fiscal Review, 1987, school taxes have contributed more to the recent rise in local taxation, growing 8.3 per cent per household on an annual basis since 1982, compared to 6.9 per cent annual growth in municipal taxes.

The association's conferences for many years have endorsed resolutions requesting the provincial government to fully fund education. The association concurs with the 1987 comments of the standing committee on finance and economic affairs that increased funding to elementary and secondary schools should be the direct responsibility of the province and that there should be less dependence upon municipal property tax for education than is the case today.

The association also concurs, therefore, with the commitment to 60 per cent provincial funding of education made by the Premier (Mr. Peterson) during the 1985 election campaign.

The association understands that the Ministry of Education is in the process of revising its apportionment factors and AMO is anxiously awaiting their implementation.

The association recommends that for the 1989 transfer of general legislative grants to school boards, the provincial government provide a minimum of 60 per cent funding of total school board expenditures;

Further, that the Ministry of Education revise its system of apportionment so that the school tax burden will be shared on a more current and equitable basis, and that all municipalities undergo county, region and district-wide reassessment to create proper equalization factors;

That any form of pooling or commercial and industrial assessment for education purposes be rejected;

That an introduction of a property tax credit program for residential and farm ratepayers be rejected;

That, ultimately, the province assume 100 per cent of the costs of education as the education system is for the betterment of all society and accounts for over one half of the property tax bill and has no direct relationship to the worth of property.

Ms. Brick: Briefly, in conclusion, we have some comments here with regard to federal tax reform that are not directly related to budget, but we thought it was something that could be of concern to your committee. We have been awaiting with some apprehensiveness the release of phase 2 of the federal finance minister's tax form proposals.

Mr. Wilson's preliminary document, released early last summer, leaves much to be desired in terms of definition or direction and, as a consequence, it has been difficult if not impossible to achieve a reasonable or accurate picture of the possible impact upon municipal government and public sector institutions in Ontario.

AMO has expressed its appreciation to the Treasurer (Mr. R. F. Nixon) his statement of November 18 in the Legislature to the effect that he had requested "the federal minister to provide either a plan for a tax-free approach or an appropriate compensation mechanism for provincial and other public sector transactions, should this new tax be implemented."

The Treasurer's message was conveyed to Mr. Wilson at a subsequent meeting of treasurers. As a result, Mr. Wilson announced, at the conclusion of the meeting on December 11, that basic groceries, drugs and medical devices would not be included in a national sales tax program and that public sector institutions "should not bear a greater tax burden under a national sales tax than they would under existing sales tax regimes."

While AMO takes some comfort in Mr. Wilson's statements, the words "should not" are ambiguous enough for the association to remain concerned over the potential impact on municipal government in Ontario. For example, the statement lumps in municipalities with other public sector institutions. While the entire public sector might not bear a greater tax burden, the possibility of shifts within this broad sector is not precluded.

For the above reasons, AMO and its members will continue to monitor developments in this regard. AMO is most appreciative of the invitation of assistance offered by the Treasurer in this regard to call upon Larry Leonard, Assistant Deputy Minister of Treasury and Economics, tax reform. We have had one meeting with Mr. Leonard and the members of his staff and will continue to keep in close touch with him in the coming months.

The association recommends that the provincial government, in its negotiations with the federal government, pursue the position that municipalities should not bear a greater tax burden under a national sales tax than they would under the existing sales tax regime.

We would like to express our appreciation to your committee for hearing our recommendations and will try to respond to the questions you may have for us.

Mr. Chairman: Thank you very much for your presentation. It is almost like a love-in. I appreciate the number of times you have endorsed our submissions from our previous statement.

Mr. Ferraro: I thank the delegation for the presentation. I do not want to detract from the love-in aspect alluded to by the chairman, but I am compelled as a member of the committee, and have been for the past several years, to ask a very important question. I appreciate AMO's position. I expected no less than to ascertain that you indeed wanted more transfer funds from the province. That is fair ball; that is understandable. Why should you be any different from anybody else who comes to this committee? Having said that--I can only assume AMO has discussed it--are you supporting increased deficit budgeting or increased sales tax or income tax from the province?

Ms. Brick: We have not discussed those issues.

Mr. Ferraro: The difficulty I have as a member of the committee--I am sure you are probably familiar with this, and I appreciate you did not put in some figures on some of your requests; quite frankly, it would probably be scary to look at those figures--is that in the last week and a half or two weeks we have been asked for in excess of \$12 billion by various groups, whether for health, education or so forth. Take that in conjunction with the

fact that the Treasurer indicated we are going to lose \$2 billion in transfer tax from the federal government and that the Ontario government is indeed now operating at roughly a \$1.1-billion operating deficit for this fiscal year. More important perhaps, the Treasury has indicated that while we will have some continued growth next year, up to 1991, our real growth rate in Ontario will be 2.5 per cent and inflation will be something like 4.8 per cent.

Having said all that, and if AMO--I say with great respect, having been a municipal politician before I got into this level of crime--wants a bigger piece of the pie, I can only conclude that unless we are going to wipe out completely some of the subsidies the province gives to other sectors, which I do not believe you want us to do, I can only conclude then that AMO would be in favour of either increasing the deficit or increasing property taxes or income taxes.

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Ms. Brick: To respond to that, and perhaps some of the other committee members would like to too, we certainly are aware that money has to come from somewhere and likely you are looking at one of the alternatives. We have not taken a firm position on that. We certainly recognize that, but we do recognize too that municipal property taxpayers cannot afford to keep increasing the percentage in municipal taxes at the rate they have. That is where we come from. We realize the province has to come up with the dollars from somewhere and you have the one of two choices. That we recognize. Grant, do you care to respond further on that?

Mr. Hoppercroft: Just to follow up on what our president has said, we have as our main tax source the property tax base. The province, on the other hand, has at its disposal much more progressive forms of taxation. Faced with a choice of whether we should be putting more burden on the property tax base versus more burden on the income tax, the progressive tax base, I guess we would opt for the latter, the progressive tax base, because we feel the province has more taxing power which is more equitable than the property tax.

Mr. Ferraro: I think that is a fair remark. I just want to take some solace in the fact that if we do have to increase taxes, I want to be able to say that AMO supports it. There is some solace in numbers, I suspect.

Mr. Curran: There is one point I would like to make, and that is with regard to the number of new programs that seem to be devolving down from the provincial government. With all due respect, it seems as if there is not much planning in terms of the impact it is going to have on the local property tax base. Perhaps if there were some sort of more concentrated dialogue prior to the devolution, these could be incorporated a lot more smoothly, so that the impact is not felt quite as negatively.

Mr. Ferraro: I appreciate that comment and I totally support that, quite frankly. You must appreciate, of course, that many times we are compelled to make these programs vis-à-vis changes in the Constitution or Charter of Rights, vis-à-vis the "spouse in the house" legislation, which leads me to a question. I do not know whether Mr. Eddy wants to answer this or not, but it was my understanding, certainly when I was a member of Guelph city council, that the province picked up 80 per cent of the social services budget for a municipality. Is that not the case throughout Ontario?



Mr. Eddy: That is GWA, general welfare assistance, which is 80 per cent. That is correct. But one of the problems with that was that the provincial share was paid much later than the expenditure was made.

Mr. Ferraro: That has been changed, has it not?

Mr. Eddy: That has been speeded up, and we are very appreciative of that. That has helped tremendously, but there was a considerable time lag.

Of course, the other problem with social services is the great fluctuation and a great increase in case load in some municipalities. The last time that happened was during a period of an economic downturn and interest rates were very, very high, so the cost of financing the programs was very, very high at a time when the cost of social services was taking a very large percentage of most municipal budgets; at least, those responsible for social services.

Of course, the 80 per cent, we understand, is 50 per cent federal component and 30 per cent provincial.

Mr. Ferraro: Enlighten me, if you can, Mr. Eddy. When you specified general welfare, how much would general welfare comprise out of the social services budget?

Mr. Eddy: I am not sure of that; it depends. Apparently, Mr. Hopcroft has some figures.

Mr. Hopcroft: Taken from last year's budget, the proportion of the provincial expenditures was \$562 million. That was a 3.5 per cent increase from the 1986 budget figure. That is the provincial proportion.

Mr. Ferraro: I certainly found it eye-opening when you referred to the fact that you included health, education and social services and compared it to the increases. I am just wondering whether or not it would have been more appropriate--certainly less dramatic--had you compared the social services increase and compared apples with apples.

Mr. Eddy: Case loads under general welfare assistance have been going down considerably and are at almost an all-time low in many municipalities, but it is the increased programs, the new programs that will have a great effect on municipalities.

Mr. Ferraro: I want to ask one last question. It bothered me as a municipal politician that we got labelled every time we sent out a damned tax bill when 53 or 57 per cent, whatever it was, was education taxes. There is a separate argument, if you will, to get up to 60 per cent funding, and I know you want 100 per cent funding, by the province for education. It bothered me, quite frankly, that as a municipal politician I had to justify for the trustees, who got off the hook to some degree, because we were perceived by a lot of people as being those who put on the tax rate. Has AMO taken a position in that regard?

Ms. Brick: Our position is that we should be working towards the ultimate goal of 100 per cent.

Mr. Ferraro: What about an interim position?



Ms. Brick: The 60 per cent we see as being the interim position. I will further expand on your comments of 50-some per cent. There are many rural municipalities today, and I represent one of them, where 70 per cent of your property taxes are for education.

Mr. Ferrero: Thank you very much.

Mr. Chairman: In fairness to Mr. Ferraro, if Mr. Neumann were here he would ask you, as he does every seeker after funds, even though he is a former mayor, what about the deficit?

Mr. Pollock: I am sure you are well aware of the problems there are in rural areas over landfill sites. I attended a meeting last Tuesday night. In this particular landfill site they have increased the tonnage and now they are allowed to dump 125,000 tonnes into this landfill site in a year. People are quite upset about that increase and are very concerned. I noticed in your brief that you really have not touched on the environment or landfill sites or anything along that line. That is a major concern of mine in rural areas and I am sure it is of yours too. Would you care to comment on that?

Ms. Brick: If I may, to respond to Mr. Pollock, in our introduction we do mention that--the municipal-industrial strategy for abatement, the regulations under regulation 309, waste management. It certainly is one of the most critical issues facing all municipalities today throughout the province. We see that it is an area where with stricter guidelines there is going to be greater cost and we are very fearful that a lot of these costs are going to shift to the local municipalities, which really in a lot of instances do not have the base to support them.

Mr. Pollock: I agree.

Ms. Brick: So we are very concerned.

Mr. Pollock: It is the small, rural municipalities that are going to get it right in the neck, as far as I am concerned. The bigger municipalities are not really paying their fair share, as far as dumping some of this garbage in rural areas is concerned. These landfill sites now are becoming a real problem and people are really concerned over the fact that there are more chemicals going into them. It used to be a few years ago there were very few chemicals around to go in them. Now there are chemicals going in them. They are more concerned about the underground water supplies being contaminated than they are about acid rain now.

Mr. Mackenzie: First, just a small clarification. On page 14 in your brief, the last paragraph, just about the last sentence, you are not suggesting there--"progressive income, corporate and sales taxes"--that the "progressive" applies to sales taxes as well, are you?

Ms. Brick: Who was speaking to that issue?

Mr. Eddy: I was speaking to it. The problem we have with social services is that they are funded by property tax and are increasing substantially. Considering the importance of the affordability of home ownership, we feel it is a better system. Personally, I agree the money has to come from someplace and I think it is more proper to be through these other systems, including sales tax.

Mr. Mackenzie: I am wondering about your classification of corporate and sales tax, whether or not you were calling that progressive. It is a very small point of fact.

When you talk about new programs and the cost to municipalities, is your problem there, more than anything else, with the ongoing funding once you have had a new program dumped on you, at the initial startup?

Mr. Eddy: I think with social services, yes. It is an increase and, of course, we are faced with many other increases for many other services, as the paper submits, but it is a concern, and also with social services, the fluctuation of it at times when municipalities are least able to pay increased costs, as I mentioned before in the case of an economic downturn. It is a very difficult thing for municipalities with a rapidly increasing case load, at a time perhaps when interest rates are higher, when it is funded that way through borrowing, and it just takes such a large percentage out of the budget. If the cost of social services goes up any year by 50 per cent, something else usually is cut to take care of that. That is usually the first item.

Mr. Mackenzie: Perhaps I can go to the final question I have, and it really deals with comments Mr. Ferraro was making earlier. When you take a look at the requests you have---and I do not suppose most people would argue that they are not legitimate---and when you take a look at the transferring of education costs that most of us have supported for a number of years, we are obviously into a major problem of restructuring our taxes. I think basically that is what this whole exercise is all about, forgetting almost everything else.

I was interested in your comment that you would prefer a more progressive or equitable type of taxation. I take it you are talking basically about a progressive income tax, or do you have minimum tax or any other ideas or suggestions for this committee? I think we can talk about the needs in any area we want, but if we are not going to take a look at whether it is possible to get people to accept some change in taxes in Ontario, we are really not dealing with the problem.

Mr. Eddy: I think the advantage of sales tax is that people have more of a choice of what they buy, whereas with property tax, it is imposed. Sales tax is too, of course.

Mr. Mackenzie: It is ending up being a bigger percentage of the income being spent by a lower-income person than would be by a better-off income person.

I guess I am not zeroing in on any one of them, but I take it your position is you would like a more progressive tax base rather than some of the property taxes and education taxes we have. I was wondering if you had any other suggestions. You seem to indicate sales tax does not bother you too much.

Ms. Brick: It is one of a number, but if there are going to be changes made, I am sure the province is going to do some kind of a study on what is the best route to go, and that aspect of it we have not delved into very deeply.

Mr. Mackenzie: In a very minimal way, I think that is part of the mandate of this committee, if we are to look at prebudget and tax reform. That is why I think the questions are valid.

Most of the groups before us have not come in with any suggestions as to how we might raise the money. As Mr. Ferraro said, we have had better than \$12 billion requested and, at least on a personal basis, I am more interested in getting the reaction of people as to what we might do about the tax base here in Ontario.

Mr. Kozyra: Staying on programs, in my more cynical moments I sometimes look at them as soap products each year, new and improved. You wonder how they can continue to do that, being new and improved, and where is it going to end. I know you spoke of adequate funding. Is the position of AMO also that it would prefer to see fewer programs or a major overhaul of existing ones in the hope of reducing them? The question is can it ever end, or if they are going to be new and improved, what about some of the old and degenerate ones if they even exists? Is there a position that AMO has on programs in general besides, "We want adequate funding for those that come down the line"?

Mr. Hopcroft: One of AMO's basic policy positions is that the more unconditional grants there are and the bigger the unconditional grants pot the better, because that allows the municipalities to react to their own priorities. We recognize that there are provincial objectives to be met in some of the conditional grants such as transportation, some in the area of environment and so on, but ultimately, the more unconditional money, the more enrichment to the unconditional grants pot that there is the happier we are, because that allows us to react to our local priorities in a way that we sometimes cannot within a conditional grant system.

Mr. Kozyra: So you could determine more of the local programs as such, rather than have programs handed down.

Mr. Hopcroft: That is right, because some municipalities have greater needs in particular years in the area, for instance, of sewage treatment or water distribution. In another year it may be roads. In another year it may be in another area. If we have a larger unconditional grants pot, we can react to those without having to fit within a particular pocket of a particular program. Although there have been improvements to the unconditional grants base over the last few years, some of the basic per household types of grants have not increased from year to year.

That is something that we have had and certainly appreciated, the level of input that the Association of Municipalities of Ontario has had. As our president mentioned earlier, a great many of the recommendations we made for this year were accepted in the areas of fine-tuning, but ultimately, without a much larger infusion of money into the unconditional grants program, we will be unable to achieve a lot of the objectives we have set for ourselves.

Mr. Kozyra: Speaking of input, Mr. Curran, you mentioned more communications in municipalities and the government. Do you feel there is not enough done along the line of the dollar impact on communities of these programs? Is that what you are saying?

Mr. Curran: Yes. I think that is the point I am trying to make. It ties in with what Mr. Hopcroft was just talking about. Money will be made available for a particular program or a particular area. The local priority may be an entirely different area, but in order to take advantage of the funds that are being offered, there is a requirement that there be some sort of matching funding on the local level. Those dollars then have to be prioritized



against what is seen as being the more important need versus the availability of additional dollars in what might be seen as a secondary need.

If there was some sort of dialogue that went on beforehand in determination of what the programs are going to be in an ensuing fiscal year, it would be better.

Mr. Kozyra: With 800-plus municipalities.

Mr. Curran: No. There is a great conduit for dialogue with the municipalities right here in front of you.

Mr. Kozyra: Through the association.

Mr. Curran: That is right.

Ms. Brick: If I could, Mr. Chairman, I would add to that that AMO has in the past requested the cabinet to consider when legislation is being passed the impact it will have upon municipalities. I recognize that to consider for 838 is quite an undertaking, but at the same time, you know the cost before you go into something, rather than we, as well as you, feeling the impact of it. I think we recognize when we go to implement a lot of things, we should know the cost. When new legislation or new programs are coming forward, I think it is to everyone's benefit if a cost impact is done.

Mr. Kozyra: So that should be an integral part before any program is implemented. I tend to agree. I think that makes very good sense. When the roads people were here earlier they presented us with a potential budget of \$5 billion over the next few years and they said they were not adverse to a designated tax that would come from a one per cent per litre levy on gas and then could be designated directly for that. I wonder how you feel about designated taxes, especially for things like roads. I am not sure how you would designate a tax for a sewer, but here is one that directly relates.

Mr. Curran: If I am going to respond to that, it will not be on behalf of the association because we have not sat down and hammered out a policy on that type of question. Personally, I am a firm believer in user-pay to the point where, if I am driving an automobile and I am contributing towards the deterioration of the infrastructure, I am not adverse to paying a penny a litre in addition to the present tax system for gasoline, in order to help defray that. I do not think I would notice it.

Mr. Kozyra: With the ever-increasing demand for extra revenue and so on, I would hope and really appreciate it if AMO did take a look at that type of aspect, designated taxes, not only there but in other areas. I think that would be very valuable to the provinces in deciding where to get the extra revenue.

Mr. Pelissero: On page 17 of your submission you talk about "an introduction of a property tax credit program for residential and farm ratepayers be rejected." Could somebody expand on that for me, please?

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Mr. Clarke: Yes. The reason for putting that position forward is that if it were a property tax credit program instead of the rebate program that we have now, it would probably be funded through the municipalities after the fact. In other words, the municipalities would suffer the loss in revenues



throughout the taxpaying portion of the year and only regain that revenue at the end of a year. That would be a hard blow to the cash flow program of any municipality, so we would rather see it remain in the form that it is.

Mr. Pelissero: I am assuming the Rural Ontario Municipal Association supports that position as well.

Mr. Clarke: I do not know. Do you know, Doris?

Ms. Brick: Yes, they are part of our association. That has been our position, and it has been discussed a number of times. One of the most recent situations was when the farm tax rebate program was changed, and it was AMO's position that we did not want tax credits; we like the rebate idea.

Mr. Haggerty: Following Mr. Pelissero, on page 17, I have some difficulty in following the trend where you are trying to drive a point. It says: "And further that the Ministry of Education revise its system of apportionment so that the school tax burden will be shared on a more current and equitable basis; and that all municipalities undergo county/region/-district-wide assessment to create proper equalization factors." Then you go on to say: "And that any form of pooling of commercial and industrial assessment for education proposes be rejected."

In the area of county/region/district-wide reassessment that you are proposing, are you aware of what has taken place in the Niagara region, where industry is now appealing its current industrial assessment and has been granted large reductions in municipal assessment practices? It is really causing some concern to the municipality. I think of Port Colborne, where two industries have gone and been successful in this area. Is this a trend now that is moving across Ontario? I think Welland has had one too.

Mr. Clarke: There certainly has been a history of reassessment on a market value basis throughout Ontario. I believe something like between 500 and 600 municipalities have now made use of the section 63 program for reassessment, but in this particular instance we were talking mainly with regard to the manner in which an upper-tier levy may be apportioned across a region or a county where there are several distinct municipalities within that region.

Because there is a lag in the reassessment program under section 63, the equalized assessments tend to get very much out of date vis-à-vis the market value assessments. Therefore, there have been some instances--Nepean is a particular instance--where the province intends, we believe, to make some adjustments in the apportionment system. They were so far out of any current situation that the apportionment of the upper-tier levy was out of whack by tens of millions of dollars. It is reassessment for that purpose rather than reassessment for purposes of changing the particular market value on any particular property that we are talking about.

Under any form of assessment you will have appeals, and I think this is what you are talking about. Commercial and industrial taxpayers have been appealing their taxes, there is no doubt about it. I do not think we are ever going to get away from that.

Mr. Haggerty: It could develop into a serious problem without some form of reassessment then, to go back and review the assessment manual that they are using to assess industrial buildings.

Mr. Clarke: Yes, I agree with that.

Mr. Haggerty: Normally, in the apportionment, reassessment rates that go back, the municipalities apply section 63. It has hit the rural areas more so than it has the larger urban areas, if I am not mistaken. That is why there is some hesitation in rural municipalities or townships to move in that direction, because again it will reflect upon them that apportionment costs go higher, yet many of them cannot expand in the area of industrial-commercial development within that community or within that municipality. Some of them by regional planning, for example, have got them frozen, so there is no development whatsoever in a rural municipality.

How do we go about bringing in some of those changes? Would you find it under a complete reassessment?

Mr. Clarke: We would hope that reassessment would be the more equitable route to go, that more equity would come out of reassessment than letting the status quo sit for five, 10 or 15 years. Yes, if you believe in the philosophy that the market value represents a store of wealth and that people with wealth can pay a little more than people who do not have wealth.

Mr. Ferraro: That means you pay more, Ray, and I pay less.

Mr. Haggerty: I guess so. I am a country boy.

I am looking at the area, though, where there is now regional government study review. I cannot recall any directions in there saying, "Let's take a look at the overall assessment," because many of these communities or regional governments were established back in the late 1960s and 1970s, when they went into it without any reassessment program whatsoever. They are still operating, if you call it, with their own personal assessment manuals without coming back to the provincial manual.

Mr. Clarke: We are recommending in recommendation 2 that all municipalities undergo a county/region/district-wide reassessment to create property equalization factors. I think we are arguing along the same lines.

Mr. Haggerty: If you had your choice, though, to go to reassessment and the sales tax, would you prefer having the sales tax back at the municipal level?

Mr. Clarke: I am not sure I follow.

Mr. Haggerty: Each municipality years ago used to be able to apply a sales tax in its community. Now we see the federal and provincial governments hitting that area more than ever before. All I am looking at, is your share of that sales tax really coming back to the municipalities?

Mr. Chairman: As opposed to reassessment?

Mr. Haggerty: As opposed to reassessment.

Mr. Clarke: No, I think we are talking here about reassessment. I do not think we are trading off changes in the dollars that come out of reassessment because, after all, they only get redistributed. There are not more tax dollars taken out of the taxpaying public through reassessment as there would be if there were increases in the sales tax. So we are here arguing only for region/district/county-wide reassessment.

The other suggestion, that we might give up that position for a portion of the provincial sales tax, is really a non sequitur as far as we are concerned at the present. Later on, we might want to take a look at that.

Mr. Haggerty: In the American style of government--I just want one more question; this may even come into the free trade area--county governments on the American side have a right to a sales tax. Have you considered that here?

Mr. Clarke: We have not considered it in the context of this recommendation, no.

Mr. Curran: I would venture that most municipalities are not administratively set up to become involved in that type of revenue generation.

Mr. Chairman: I guess you could quickly enough if it were handed to you.

Mr. Eddy: All right, why not try it?

Mr. Chairman: In any event, we thank you for your submission. I recall that at this time last year, we were totalling up \$1.5 billion of hard requests, which would be added to Mr. Ferraro's list. You were sufficiently general and vague that it is going to be hard for him to add this on. We appreciate your submission and we will take it into consideration.

Ms. Brick: Thank you very much, Mr. Chairman. We look forward to seeing your report.

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Mr. Chairman: At one stage, your agendas indicated the next group would be the Urban Development Institute. They did give us a submission. It is exhibit 14. It was actually prepared last summer when the requests first went out, but they have now indicated that they wish to rely simply on that written submission and will not be appearing. We have in their place the Ontario Federation of Students, which has exhibit 21, which was distributed to you on February 15. There are extra copies available if you do not have it.

Could the representatives of the OFS come forward, please. We have with us Sheena Weir, chairperson of the OFS. I understand you have with you Robert Butcher, executive member and president of the Western Society of Graduate Students; Gabriel Sékaly, executive director of OFS; and Shelley Potter, chairman-elect. Welcome to all of you. Premier Davis once said you were the most potent of all lobby groups, so carry on.

#### ONTARIO FEDERATION OF STUDENTS

Ms. Sheena: Let us hope we live up to it. Thank you very much. We are very pleased to be here today. I will not introduce everybody, as we have just done that, so that is fine.

Basically, the Ontario Federation of Students represents a quarter of a million post-secondary students in Ontario. We would like to start today by stating somewhat the philosophy that we hold as it relates to post-secondary education in Ontario.



We believe that higher education in Canada exists to serve the needs of the majority of the Canadian people, and therefore it should be organized to meet these needs. These needs determine what we see as the purpose of post-secondary education in Ontario and throughout Canada, a purpose embodied in the positive, democratic traditions of Canadian society.

As students, we embrace the traditions of Canadian society that aspire to overcome inequality and promote social change. These traditions find their realization in a post-secondary education system that is concerned with the social needs and its own social impact. It is our belief then that higher education in Ontario and throughout Canada should not exist to serve the partial interests of any élite. Higher education is subsidized by the people of Canada and must belong to the people of Canada.

It is these needs and these beliefs that form our basic principles: that post-secondary education in Ontario must be universally accessible and that post-secondary education in Ontario must be of high quality.

Education is the cornerstone on which the future of this province lies. It will be the engine on which the economy of Ontario will run. The government's much-wanted international competitiveness will be won or lost on the post-secondary education level.

If we are to compete internationally--a favourite buzzword of many governments--we must ensure that post-secondary education is the top priority. If we are to adapt to the new information-based society that we are unquestionably heading into, we must ensure that accessibility is available to all qualified students.

That is why the OFS was disappointed and rather distraught with the funding announcement in November of basically a 4.5 per cent increase in funding for the 1988-89 fiscal year. We felt that although it was 6.7 per cent, when you eliminate the targeted funds and also such things as progress through the ranks, you come up with what is an insufficient amount of funding for the upcoming year in the light of many things that we hopefully will be highlighting through the progress of our presentation.

At this point I would like to turn things over to Robert.

Mr. Butcher: Thank you. I want, first of all, to address the problems of accessibility that are faced by students and prospective students in Ontario. As no doubt you are well aware, the bulge caused by the Ontario Schools, Intermediate and Senior Divisions guidelines is going to produce quite phenomenal pressures on the system over the next few years, pressures which the government is attempting to meet in part by increasing funds in the short term.

Let me explain my particular concern. I am graduate student. I am doing a PhD in philosophy. If you have an increased number of people coming into classes or an increased number of people coming into the system, the simplest, easiest and cheapest way of meeting those short-term pressures is to increase the number of staff you have available. Those staff are going to be drawn almost exclusively from the ranks of graduate students. They are a relatively cheap source of teaching. Because they have such pitifully low stipends for academic study, the promise of perhaps \$6,000 for teaching a course seems like heaven on earth. It works out probably to about \$8 or \$10 an hour over the life of the course, which is not a fantastic deal after eight or nine years of



education. Our members are going to be hit quite dramatically by those sorts of attempts to deal in the short term with increased classes.

As you know, this year applications to Ontario universities are up by 10 per cent. It is in part caused by OSIS guidelines, it is in part caused by the greater numbers of students who are applying to the universities from grades 12 or 13. Ontario simply has to plan, over the longer term, for increased numbers of students at its universities. It is the only effective way of dealing with the quite phenomenal challenges that the Ontario people and the Ontario economy are going to have to face. Ad hoc and short-term solutions really cannot hope to solve those problems. The universities are going to require increased base funding over a number of years.

The barriers to post-secondary education are legion; not the least of them are financial. We are going to deal with that in a little while. Let me reiterate by saying any attempt in the short term to deal with increased participation rates is going to result in an intolerable burden being placed on graduate students, in particular, to teach larger classes and to take time out of their own studies.

Graduate students are going to be particularly affected because at the same time that they are going to be expected to teach more, there is increasing pressure on students to finish post-graduate degrees far more quickly. The current average length of time taken to do a PhD in the humanities, after a master's degree, is about six years. The funding transferred from the provincial government to the universities lasts for only four years. So graduate students are kicking around for an extra couple of years while they are unfunded by provincial sources.

It is an intolerable system of a series of pressures on people who are very keen to get out to work and to establish families. The average age of people starting academic jobs is inevitably increased as the time they have to spend either studying or in short-term contract positions increases. That is just not fair to those people on whom the post-secondary education system is going to have to rely, perhaps not right now but in five years' and 10 years' time, because these are the people who will be teaching the students at that time.

Ms. Weir: OK. When we are considering things like the OSIS bulge and increased participation rates, we believe also that the system is chronically in problems already as far as capital and operating grants go, so I would like to stress again when speaking about these things that we have to bear in mind also that there is going to be this incredible strain placed on the system, which is already taxed quite heavily by an incredibly increasing number.

We have been quite pleased with the progress made by the Liberals in the first two years, in their minority government, with the funding increases that were seen. Frankly, as I have highlighted in my opening remarks, the increase mark is barely or just under inflation, depending on how you would like to figure it. We are quite concerned that unless the spring sees a major influx of funding, both operating and capital, we are going to be in a very critical position with the increase of applications to universities this fall already at over 10 per cent, not to mention the college system, which has been underfunded for quite some time as well.

As to the provincial share of the budget, between 1977-78 and 1986-87 the university operating grants as a share of the provincial budget have declined from 5.92 per cent to 4.77 per cent. The decline figure, of course, is always disheartening to us, but especially in this time of excess numbers going into the system and the increased interest in participating in post-secondary education, it would seem that it is necessary to see a real increase.

Likewise, in the community college system the operating grants have been increased only to keep pace with inflation. Only recently, in 1978-79, colleges received \$3,145 in operating grants per full-time equivalent student. The figure in real dollars for 1986-87, however, is only \$2,909 in constant dollars, which is a decrease of 7.5 per cent.

I cannot stress enough that in order to make it in this information-based, more-interest-in-post-secondary society, these simply have to start to climb again. We are hoping this budget will be indicative of that type of turnaround.

On capital funding, you heard from the Council of Ontario Universities earlier in your proceedings, I believe. They outlined a number of requirements they felt were essential, at least in the short term and for minimum salvation, shall we say, which amounted to \$862 million in new construction, repair, renovation, alterations and the like. We would be more than happy to consider this also a minimum requirement for maintaining some level of quality within the university system.

When you talk about colleges, some of the things that have been going on in the province are quite alarming. For instance, we have heard of different colleges, such as Fanshawe College of Applied Arts and Technology, where there have been areas that were designed for classroom space or student space that have had to be adapted to faculty space in order to better compensate for the lack of that space that was originally forgotten or not deemed necessary in the original intent and construction of the college system. As time goes on, we see there is more and more demand for students to spend more time with the teachers and they need to have that space allocated. As a result, we are losing space all the time for necessary things like faculty space.

Mr. Butcher: I am going to talk just for a moment about quality. Quality is going to raise its head in a number of guises. Perhaps the most obvious way is quality of teaching. Teaching quality will necessarily decline if the teaching environment is going to be one of huge classes.

There are two things to look at here. It perhaps does not make a great deal of difference whether a lecture is given to 100 or 200 people, the delivery is going to be pretty much the same; there is no chance of student-teacher interaction at all. It is a straightforward production number which is going to allow us 40 minutes with some overhead graphics.

The real teaching is going to have to be done in far smaller groups. Those groups are normally headed by graduate students; they are going to be tutorials and seminars. There are a number of critical sizes for those groups. If you want a seminar session, you cannot do it in groups of more than 15 or 20 people, because what will happen is that you are going to repeat the lecture situation. That does not help the students. Labs, again, are going to be taught by graduate students; they are not going to be lectured. You cannot have a lab with more than 30 or so people in it. If you do, inevitably, a number of the students are simply not going to get their problems dealt with.

What this means is that when we think about class size and student-teacher ratios in the universities, we have to think what that comes down to: you know, the change from 14 to 17 as a student-teacher ratio. What that means is there are some kids who are not getting their problems solved. It means the students have not got anything like direct access to the professors who are teaching the courses, which means their problems are going to have to be dealt with, in the first place, by graduate students.

Most of the time that is perhaps not a hopeless problem. It means the professors are one stage further removed from their students, which is not good. The effect, though, is that there is a phenomenally increased workload on graduate students. That in itself has adverse effects on the quality of education. If you ask a graduate student to do too much, at some time either his or her own work will suffer or they will say: "That is it, forget it. I have done my office hours. I am not available outside of those office hours." That means, again, that students with problems, the students who are maybe having some difficulty or even the bright students who want to have some extra input, are not going to have access to that sort of quality education.

If you do that, in a ghastly way, you turn Ontario universities into degree mills. Stick them in one end, they turn up for a few courses or a number of courses, and churn them out the other end with a degree. That is not the point of post-secondary education. The education system has to be there not to teach facts but to teach skills. Those skills are going to be best learned in close interaction with the people who are teaching them. So, improving student-teacher ratios is not something that would be nice, it is something that is necessary.

The overcrowding of classrooms also has problems, purely physical problems. Every university will tell you stories of classes which are so full that there is no desk space and people have to either sit in the walkways or perch on the sides of desks or stand in corridors. The difficulties with that are legion. It is not a particularly good studying environment. It is also the case that the faculty or the graduate students teaching those courses are probably personally liable in the event of any sort of accident or fire. If there are any disasters there, the people who are teaching those courses would be responsible for not following fire regulations. It sounds crazy but it happens. There are loads and loads of classes taught in conditions which are simply unsafe.

Quality can also be seen in the straightforward deterioration of the buildings. Again, go to any university and there will be horror stories either of dreadfully overcrowded conditions, buildings in states of severe physical disrepair or states of overcrowding in libraries such that it is next to impossible to physically fit in the sorts of material that have to be available if the university is going to continue its research work.

As a final point, it seems in many ways that this province's governments and probably the governments of every other province, and probably the federal government as well, have decided that the way forward, the way to solve problems in post-secondary education, is to create centres of excellence. They come in a variety of different guises but the principle is the same. Research is very important, yeah, yeah. So you pump a load of money into these centres of excellence which bring together the brightest research minds. Yeah, it is a great idea. It is a wonderful idea. The problem is that when you do that, when you specialize in that sort of way, specialize the research staff, you are devaluing undergraduate teaching.



As it stands at the moment, teaching undergraduates is not the most exciting part of the life of a university professor. The constant emphasis on research work and centres of excellence is achieved only at the devaluation of teaching. And you know, I reckon teaching undergraduates is probably a fairly important part of the function of universities

So when you think about centres of excellence be careful, because if you direct resources there, you inevitably take away resources and take away the minds from the teaching of undergraduates.

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Ms. Weir: Next, we are going to talk about something that is clearly on many students' minds most of the time; that is, the problems we have with the Ontario student assistance program system and the difficulty in order to access some funding for a number of students.

There has been some progress made. Last year, as we know, there was a substantial increase that started us on the way. Unfortunately, there are still a number of areas that mean students are having a hard time of it. The first thing I would like to talk about is the debt load situation. It is quite frightening, as I am sure you are all aware in one way or another, where students no doubt have been in touch with you as MPPs: the critical sort of state they are in, or upon graduation, the debt load that has accumulated, and they are expected to begin paying it back.

If you take \$10,000 and more upon graduation as a debt load, and this is not an unrealistic amount of money, it is not a very bright start to your future, I think you would all agree. We are not just looking at \$10,000, we often hear of amounts in excess of \$20,000 for as little as a master of arts degree, for instance, with \$21,000 to \$24,000 with little leeway in ability to pay back. Last year, the conclusion drawn was that the best way to handle this was to increase the payback period from seven to 10 years.

In my mind, that is clearly recognition of the fact that the debt loads we are asking young people to take on today are too big. It seems to me it is time to start really analysing. What has happened is that basically the loan has increased and increased and the grant portion has not kept pace. As a result, you have these students who have great need because the cost of education has risen by leaps and bounds over the last number of years, but the funding has not kept pace in the grant-loan proportion. You have an extraordinary loan to pay back, with not necessarily a good-paying job, which is a misnomer, I think, when you are graduating. I know a lot of people, for instance, in social work or in early childhood education, who will be looking at a very minimum pay scale, who are expected to take on that kind of debt load.

Also, getting a job in your field is not always a given. For instance, we had a woman who had a job as a bank teller, living in Toronto with a debt in excess of \$20,000. You know what the rents are in this city right now. That is something you cannot handle. She had a job, however, and she was not eligible for interest relief. It is not an acceptable situation for young people who are going to become the leaders and the community of tomorrow to be saddled with this type of mortgage on their future. On that note, I would like to turn to Rob again.



Mr. Butcher: I want to talk for a moment about grant eligibility periods. As you know, OSAP grants are available for eight terms of study. This, we think, unfairly penalizes those people who are either able to support themselves at the beginning of their studies or perhaps those people who return to higher education after a period in the work force. I think it is especially unfair for those people who are able to support themselves through an undergraduate career, perhaps by working during the summer, but then are faced with three-term enrolment in a graduate program, a graduate program that leads to qualification in one of the professions, for instance.

What tends to happen is that students are being scared away from professional programs unless they are from the upper middle classes, those traditional groups that have been able to see the value of membership in a profession. I do not think, as a society, that we want professionals who are drawn exclusively from one segment of the population. This is an almost inevitable consequence of unfair grant eligibility periods, which will help only in the first eight terms of post-secondary education.

Mr. Sékaly: Another problem with the Ontario student assistance program is that with the allowable costs at present under the OSAP system the maximum a person can get is \$106 to cover living expenses and personal expenses. That covers food, rent, books and transportation.

I would like to ask each and every one of you, can you live on \$106 a week, considering the rents in Toronto? An average one-bedroom apartment in Toronto goes for \$863, according to Canada Mortgage and Housing Corp. statistics. They do not quite divide into each other. There is a gap right there and I think it is a big problem in the OSAP system. Last year we saw an increase of \$7, from \$99 to \$106 a week, so now the students have an extra \$7 a week to buy food. I think this is a big problem with the OSAP system and should be addressed.

Another problem is learning materials for francophones. Books, etc., for people studying in the French language are more expensive, and this is not taken into account by the OSAP system. OSAP has to consider these materials when it comes up with figures of allowable costs for students.

En parlant des problèmes des francophones, j'aimerais aborder maintenant le problème de l'éducation des francophones en Ontario. Il y a un grand besoin en Ontario d'éducation en français. On a besoin d'au moins trois nouveaux collèges pour résoudre les problèmes des francophones: l'un dans le Nord, un autre dans l'Est et un autre dans le Sud. En plus, nous avons besoin d'universités francophones.

En ce qui concerne l'éducation des francophones, comme vous le savez, la participation des francophones est la moitié de celle des anglophones. La raison de cela, c'est qu'il n'y a pas de cours dans les régions où les francophones habitent. Pour ces gens-là, il n'y a pas de cours professionnels en médecine, par exemple, ou en sciences de la santé. Je demanderais au comité de s'attaquer à ce problème-là, et surtout de mettre sur pied des collèges et universités en Ontario pour résoudre les problèmes des francophones.

Ms. Weir: In the whole discussion of funding, the issue of student contributions comes up. When we are discussing this, of course, we need to talk about tuition. We have some very real concerns about the rates of tuition. Last year, students had to pay an increase of seven per cent in tuition rates. The seven per cent increase was for university students. This year it is 4.5 per cent for both college and university students.

We have real problems with that. We think there is a very clear line between accessibility and the rate of tuition. We also see that in other provinces, if you average the student contribution, it is about 11.4 per cent of the total cost as compared to Ontario at 18.4 per cent of the cost. This is a problem and we would like to see this not just frozen but eventually rolled back.

There seems to be some feeling when you are talking about tuition that there is an OSAP system in place and therefore it should be no problem. "Let us raise tuition and have no problems there." I must beg to differ on the first premise. OSAP is not adequately covering these costs. Second, OSAP is a grant-loan-based system, and as such you are talking about another educational cost which can dissuade students, particularly from lower socioeconomic backgrounds, from taking part and participating in the post-secondary system.

I know some of you are from the north, where a number of students need to be travelling, for instance. I know at Laurentian University, where I am from, 52 per cent of students are on OSAP. It is a critical situation. When you are talking about raising tuitions or keeping them where they are, it is just not enough, basically. If you really and truly believe in accessibility for all qualified students, I think it is time to look seriously at the tuition question and start bringing it down.

I know there are a number of students who are intimidated by \$1,500 for tuition. That is not an inconsequential amount of money. There are other provinces--Quebec, for example--that have kept tuition levels down.

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I cannot state enough how much I am worried about the tuition situation after last year's seven per cent increase, which is a lot over inflation. I can only hope we will look to the next academic year and have a freezing of tuition fees. If nobody can come up with conclusive evidence that there is no barrier--and there is no evidence that it is not a barrier; I firmly believe, as do a quarter of a million students, that it is a barrier--I urge you to take that into consideration when the discussion of tuition is at hand.

Mr. Butcher: I am going to talk about differential fees. As perhaps you have discerned, I am one of the people who gets hit by differential fees. I am here from England.

Mr. Ferraro: We did not notice.

Mr. Butcher: No? I have tried to disguise it, unsuccessfully.

Mr. Ferraro: You are wearing the right tie, though.

Mr. Butcher: Sometimes you should fit the image if you can. I want to make a distinction on differential fees before I launch into my tirade. The distinction is going to be between graduate students and undergraduate students. We will deal with graduate students first because the case is really simple. Differential fees for graduate students are stupid and perhaps counterproductive.

The whole process of graduate education is not the dissemination of knowledge but creation, acquisition. The measure of the worth of a graduate department is going to be measured through its research. Its research, almost

exclusively, is done by its graduate students. If you want very good research programs, you have to have very good graduate students. If you want very good graduate students, you have to look around the world for them. If you do not, they will go to the United States.

American universities have recognized the value of graduate programs, have recognized the value of foreign graduate students and have gone out of their way to attract them. Ontario must realize the same thing. You simply will not have good graduate programs if you cannot attract the best possible graduate students, so any method that charges them extra fees is so shortsighted as to be incomprehensible.

For undergraduate students, I recognize that the problem is rather different. It is different probably because the goals of undergraduate education are different. It is different because I think the political realities are different. When you talk about the threat of hordes of undergraduate students overrunning the system, it does not happen. The educational system is inevitably enriched by the presence of foreign students. I like to think we bring something which perhaps could not be brought if you had students simply from one country or from one province.

The other thing is that undergraduate students, when they come from foreign countries, and even if they do not have to pay differential fees, bring a fantastic amount of money into the economy, money which is new money, money from outside Ontario, from outside the country. To get into the country you need to demonstrate that you have \$8,000 or \$9,000 for each year of study. That money is brought in from foreign countries and will stay here in the Ontario economy. That is quite apart from differential fees. If you have high differential fees, you will scare those people away and forgo that extra income.

Mr. Sékaly: The last aspect we would like to deal with is the federal tax reform. I think it is within your mandate to look at that. We have prepared a couple of things on that. The first one is that under the present system, as you know, tuition is deductible if it is over 100 per cent, but it is only deductible by the person who pays the tuition; in other words, it is nontransferable. The new proposal would implement a 17 per cent tax credit for the total tuition, which would be transferable to a supporting individual.

We agree with that stand. What we do not agree with is that this tuition would be nonrefundable; in other words, it is not fully refundable for the person. If you do not have enough income to balance this on, you cannot get the extra amount of money back, as normal tax credits work.

The other thing is the \$50 per month educational deduction, which will now become a \$10 tax credit. I think we have to realize that since 1973 this amount has not increased, and obviously costs have increased since 1973.

In all, we agree with the concept of a transferable tax credit, but we would like it to be fully refundable.

In terms of the removal of exemptions for dependants, under the present system, if a person is going to university, he can be defined as a dependant under the Income Tax Act by his parents. Under the new proposal, as of the age of 18, a person will be classified as independent. Under the Ontario student assistance program that is not the case, you can be 21 and still be dependent, so there is something very wrong between the two.



You have to have worked three consecutive work terms of 12 months to be independent, according to OSAP, and yet under the new tax regulations you will be independent as soon as you hit 18. I think this is something the committee should look at. Obviously, we would prefer that independence occur when the person enters a post-secondary institution.

One of two other areas I would like to touch on briefly is the federal sales tax proposal. We would like to see, as I think the colleges and universities would like to see, a tax exemption in terms of federal sales tax. I think it is kind of ridiculous to put on a sales tax and take the money from one hand and give it to the other hand and pass it on in terms of funding.

The other thing is research and development. The definition of "research" under the Income Tax Act does not include research into the humanities and social sciences. Obviously, that is important research in our country and we would like to see an amendment in that area.

Ms. Weir: Those are the points that we wanted to make today. There are probably several other things that we could bring up with you and bend your ear on. We would rather, though, at this time ask you if there are any questions. We would be happy to respond.

The Vice-Chairman: Thank you very much, on behalf of the committee, for your presentation. Most of us on the committee are former students; we can identify with some of the problems. Indeed, as individual members now, we can identify with pretty well all the problems you have listed for the committee today. You have stimulated some thought.

Mr. Pelissero: In your presentation, you identify that Ontario's students contributed 18.4 per cent of operating income of universities in Ontario. Do you have a comparable figure of what percentage American students made up of operating income in the United States?

Ms. Weir: The only thing I can suggest is that it depends on which institution they were going to and that we would rather not compare ourselves to that system, as we think ours is somewhat better.

The Vice-Chairman: We would prefer you would not compare us with the rest of the provinces too.

Ms. Weir: That is Canada, and I think we are all Canadian.

The Vice-Chairman: I agree.

Mr. Mackenzie: It looks so good.

Ms. Weir: I think it is a fair comparison as opposed to the American one.

Mr. Pelissero: Certainly, when we had presentations on previous days from the colleges and universities organizations, they did a comparison between Ontario and, indeed, Canada and the rest of the world. If we are, in their words, "to become world-competitive," I think you have to look at who is picking up what costs and why and why not.

One aspect that Mr. Ferraro touched on in the presentation was the whole idea of corporate participation in the educational system. If it is to be accessible, somebody has to pay for it. We recognize education, certainly as a



priority, certainly as an investment, but the question is, where would you suggest, as an example, that we pay for some of the educational costs you have identified, in terms of granting versus more loaning versus a number of things?

Ms. Weir: I know Rob would like to jump in here in a moment too. I would just like to make a point or two about the corporate involvement in post-secondary education.

There are a lot of dangers when we talk about this type of involvement in post-secondary education. I will not expand on them too much--I think Rob touched on a few earlier; he will probably touch on a few yet--but one point I would like to make is that with the centres of excellence I think we should all ask ourselves exactly how interested the private sector is. At this point in time, if you look at the centres of excellence proposals, which are supposed to be a 50-50 split, and if we look at how much the private sector has offered to front in dollar figures, it is nothing. They might be willing to put a little bit of money in where they can get a lot out, or if it is application you are looking for, that is one area you could look at. It is very clearly a government responsibility in the funding of post-secondary education in its entirety, in my opinion.

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The problem with the system of tuition, for instance, is that we are used to paying part of it. I think at one time it was also said that the primary and secondary schools could not be paid for at no cost. I think you will also find that in equal pay for equal work it was stated that could not be done, and on and on. It is part and parcel in social education as to what we expect of our tax dollars.

I would suggest there are areas where there is political will, if there be that political will, where you can find that kind of funding. If there are attractive projects, I think there is funding; for instance, the centres of excellence. There was funding found for that type of project. There was funding found for the domed stadium. There was funding found, in the area of \$3 million I think, for the 1996 Olympic Games bid.

I am talking more than \$3 million, I realize that. But if the priority is on post-secondary education, which it needs to be if we are going to solve some of the problems in the other sectors of society, then I think it is something that can be done.

Mr. Butcher: Everybody is keen on the idea of getting more money for the universities. There is no question about that. I just want to point out some of the very real dangers and concerns of getting into bed too much with the private sector. This is maybe from an academic's point of view looking out.

In the first place, the private sector is going to be interested in only a relatively narrow range of research which has commercial applications. That is the first point. Inevitably then, private sector involvement is going to skew the functions of the university towards science and technology. Maybe that is not a dreadful thing, but it is certainly a skewing and it is one that we should be aware of.

The other problem is that it changes the nature of the educational environment. There is currently a whole variety of cases in this province. A nice one from McMaster University is of a master's degree program which is funded quite heavily by the private sector but which results in theses being

presented without crucial identifying information in the theses. So what happens is you have this wonderful thesis which you can read but which does not have the secret formula in it. It does not have the secret formula because the company that paid for the research does not want the secret formula to become common knowledge.

I am not sure that a university really should be engaging in that sort of activity. If the private sector wants that sort of work done, then let it hire graduates to go and do the work. Fine. But it seems wrong that work that is produced in a degree-granting institution for a degree program should be secret.

A similar set of problems is apparent at York University at the moment. One part of the relationship of York University with the private sector is to rent lab space to private companies. So there are chunks of the university that are off limits to ordinary students because the lab space has been rented or leased to a private company which is doing its own research in there and hiring graduate students who are clocking in and out to do the research for that company.

Yes, of course, there should be more money from the private sector, but the private sector should realize this is something that is in its own interests. The danger is that I do not think we should view university research as a research arm for industry. If we are generating knowledge, it has to be accessible. We are generating knowledge because the generation of knowledge is, in and of itself, a good thing and it does not matter too much what the financial spinoffs of that might be.

Mr. Pelissero: I guess what I was coming at was not talking so much about research as trying to bridge what I see as a gap left by everyone wanting open and accessible educational systems but, once they graduate from that and enter into the private sector world, not being interested in paying back. Maybe paying back is not the right terminology, because they are supposedly going to be better individuals and make everybody else better, but that still leaves the burden of proof back on levels of government. I am just trying to see if there are any methods of bridging the gap left by somebody who comes out of a nice public educational system, enters into the private world and then says, "I have my degree. That is all, thanks."

Ms. Weir: Most of you have been to post-secondary institutions, I take it from the introduction. It would be great if we all said: "That was great. Here, have some money. We are really appreciative." That does not happen and so you have to look at a taxation system which will be able to accommodate a good quality and accessible education, because everything that we gained out of it we should be willing to offer to every qualified student in the province.

Mr. Pelissero: In terms of the taxation system, you would target it solely toward corporations? If we are asking for educational systems and municipal systems to be tax exempt, with some of the goods and services that are handled, at some time the loopholes become larger than the legislation.

Mr. Butcher: I would not say that. No, I think education is a benefit for the entire province and we have to share the costs of it.

Mr. Chairman: Frankly, I do not know whether most of us have had post-secondary education or not.

Mr. Ferraro: I made that statement.

Mr. Chairman: Oh, I see. OK. I have a number of names and very little time. Mr. Mackenzie, Mr. Harris, Mr. Kozyra, Mr. Ferraro.

Mr. Mackenzie: First, I hope the right tie you are wearing, which Mr. Ferraro referred to, will get you some additional help from this government, because the announcements so far this year do not even meet the campaign promises.

I have one question only and it is not on the meat of your brief, because I think you would probably find agreement from most of the committee members on some of the problems that you outlined. It is just whether or not your federation has taken a look at the broader question of funding, whether it is education or the various other services in the province. This committee is supposedly a prebudget committee also looking at tax reform. I gather that you are not averse to a more progressive income tax base.

Right now we are financing most of our education system on borrowing and debt, tuition fees, property tax and income tax to some extent, the various revenues. I think if we are going to be serious about any changes, we have to take a look at doing a bit of restructuring in our tax system in this province, because there are costs there that you have outlined. There are costs in every other group that has been before us. There are costs in terms of--you were talking about graduate students--underpaying them. It is the same thing for some of our health care workers and homemakers. We are really doing an awful lot of servicing off the backs of people earning very low wages in this province.

Do you have any difficulty with things like minimum taxes, more of the taxation put on aggressive tax bases, payroll taxes and capital gains tax changes as a general proposition? I say that with some sincerity to you, because you are also, as you finish university, the people who are going to be moving into that new tax structure if, indeed, we are ever able to make that kind of a change in this province. I am just wondering if you have any strong feelings, other than the gist of some of your remarks that I noted, or whether you have discussed at all how we might better pay for the needs in the education system.

Mr. Butcher: I can only respond as an individual and that would not really be fair.

Ms. Weir: The one thing I could say is that I feel it should not be a system which would unfairly penalize the lower socioeconomic groups. I think what often happens is that the groups which most need the accessibility can then be penalized through a taxation system where you are not able to benefit from such things as loopholes, etc. I think it is very important that the lower socioeconomic groups be taken into consideration in any sort of discussion on tax reform.

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Mr. Mackenzie: Hopefully, that would be some of the intent of a better structured, progressive income tax, a minimum tax structure or something like that, that we are taking a look at. The reason is obvious--this is a point Mr. Ferraro usually makes--that we have had requests for somewhere between \$12 billion and \$14 billion just in the groups that have appeared before us, but only about half of them, and probably less than that, have made



any suggestions in terms of how we might do some restructuring. I think that is really the key and it is not that I want to ignore the points you have made in your brief, but that is really what is going to tell us whether or not we can do some of the things you are raising in your brief.

Ms. Weir: It is not a standing policy of our federation.

Mr. Mackenzie: There has been no real discussion on taking it that step further then, I take it.

Ms. Weir: Not in particular.

Mr. Harris: Housing is a problem, I think most of us would acknowledge, particularly in areas like Toronto. I met with a group of students before Christmas. I am not sure whether they were sanctioned by the federation or not. I assume they were. I was hit with what I thought was a fairly complicated look at how we could improve student housing and we talked about extending the freeze on condominium conversion in Metro Toronto, with which I totally disagreed by the way, and I think I relayed that. I suggested they should be asking for more student housing, more residences. That is really what they wanted. That would, in effect, free up that Toronto market for more single mothers and more low-income people and would have a double benefit.

You have talked about housing here. I congratulate you that at least your brief does not get into the whole problem of general housing, although you are vague. Are you asking for more student residences to be built as a solution to the housing problem?

Ms. Weir: I am not sure if you are aware of the 5,000 residence spaces for universities that were promised. At this point, we have no further details on that. There is nothing we would like more than to anticipate further--not further promises, in any event, but further guarantees of some residence space. It is sorely needed in this province, but we also need more available housing in the community itself. In fact, when you look at the expansion of co-operative or nonprofit units for a lower socioeconomic group, this in turn does free up, for students, already current and available space within a community.

I would say, number one, that we support those putting in bids for availability of housing. This is a crisis that transcends all sectors. If you say "lower socioeconomic," you know there is a housing problem attached to it, be it for single mothers, students, seniors, no matter what. There is a problem with housing in this province and we feel quite strongly about it. It is key and central to our spring campaign and has been throughout the year.

A second point I would like to make, and it is relatively inexpensive, is the elimination of the exclusionary bylaw. It would be a very easy and inexpensive thing to do. There is an exclusionary bylaw in your riding and--

Mr. Chairman: No, you are talking about Waterloo.

Ms. Weir: I am sorry; in Waterloo. I know that you have Wilfrid Laurier and Waterloo students bothering me, but you certainly have one in Guelph. This is discriminatory. First and foremost, it is discriminatory. The only rationale I have ever heard for the exclusionary bylaw was that we want to keep students out. That is not good enough in my mind and it would clearly alleviate some of the problem if we were allowing students to live in greater numbers where it is safe, in communities near their universities or colleges.



Third, I would say there should be a better system than what is provided already in the 5,000 residence spaces. That announcement is like an interest relief program; it does not do an awful lot for a university that does not have the funding to create a residence in the first place. It does not go the distance in creating new housing stock for students.

On another note, I would also suggest that there is a ban on the building of college residences in southern Ontario. That makes no sense. The concept of a community college, which I believe is outlined in our brief--it is very difficult to say you can live in a community and go to that college and get the education of your choice when you are academically qualified. Because of the nature of underfunding, programs are not offered everywhere and at every college.

I think it is essential that we accept that fact and move on to making sure there are residences for community college students. There are not enough in the north. You can build them, but there is no funding for them. I would say you are absolutely right, housing is crisis time in this province. When you look at a more than 10 per cent increase for next year, it is not going to be any better.

Mr. Harris: On your comment on rationalization in the community college system, is your federation opposed to that?

Ms. Weir: Rationalization? Definitely.

Mr. Harris: Would you like to see all programs offered at every community college?

Ms. Weir: I think one of the biggest discrepancies is geographic discrimination. If you have particular programs offered in one place and not another, you are eliminating accessibility for students. For instance, if you are going from Thunder Bay and have to travel to Windsor, it is going to be a bit of a problem for students up north and vice versa.

Likewise with the university system. One thing I feel quite strongly about is the fact that our Premier (Mr. Peterson) has made comment to the fact that there will be no medical school in the north. I know you have to sympathize with me on this, that it is a horrible thing for northerners to have that put in front of them. There is no hope left within this government, with a statement like that, for even the dream of having a medical school in the north to anticipate some sort of growth and development of doctors within the north, to stay in the north, to provide quality service in the north. In my mind, that is another area where rationalization has caused problems, and does.

Mr. Harris: There is a difference between saying there will be no medical school in the north and being supportive of some rationalization. You have said you are not supportive of any rationalization in the community college system. Are you saying the same, then, for universities?

Mr. Butcher: Can I speak for a minute?

Ms. Weir: Yes.

Mr. Butcher: Rationalization is just such a nasty word. It is a nasty word because it will mean--

Mr. Chairman: It is a realistic word.

Mr. Butcher: No. It is a word that will mean exactly whatever the person using it chooses to mean. "Rationalization" sounds cool, right? Rationalization is good because it is rational. Fine. Rational rationalization everybody is going to buy. The irrational chopping of some programs and the lumping together of others is irrational rationalization and we do not like it. It depends what the program is. You can only answer the question, "Is rationalization is a good thing?" when you see the program. The Bovey report was supposed to be rationalization. It was silly, as far as this federation is concerned.

Mr. Harris: I think how you go about it, we all agree with. None the less, if you accept rationalization--I understand what you are saying: every community college, and presumably there should be a community college in every town so that nobody has to go and live somewhere else, to be disadvantaged, has to offer every program. It is the stupidest thing I have ever heard. Anyway, I am going to move on.

Mr. Sékaly: That is why they call them community colleges.

Mr. Harris: That is fine, if that is your position.

Ms. Weir: I think that was the government's intent, I believe about 25 years ago, the intent of that government at that time.

Mr. Haggerty: Careful, Mike. Slow up.

Mr. Harris: I am having trouble. Let me move on to something else, because I think there are others who want to get in.

On graduate students, you indicate in your brief that international students are subsidizing post-secondary education. I do not know what the fees are. What are the fees for international students?

Ms. Potter: Two thousand dollars a term at my university, Wilfrid Laurier.

Mr. Harris: Sorry. I could not hear you.

Ms. Potter: For graduate students at Wilfrid Laurier, it is \$2,000 per term.

Mr. Butcher: It is up to about \$7,600 per year.

Mr. Harris: I do not understand how they are subsidizing. What is the cost of the program?

Mr. Butcher: I think that is a question which is almost impossible to answer.

Mr. Harris: You told me 18 per cent is \$1,500, as an average tuition. On that basis, it is about \$8,000 a year.

Mr. Butcher: May I explain the funding system, because--

Mr. Harris: It worked for your 18 per cent. It does not work otherwise?

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Mr. Butcher: No. As you know, the system is funded through a fiction called a "basic income unit." Basic income units are related to programs in a variety of different ways. Let me clarify the situation. Actually, for a master's student, four times the basic income unit comes to the university, and for a PhD student six times. If you take \$9,000 as the basic income unit, which is not too far off, six times are about \$54,000. So the University of Western Ontario receives \$54,000 for each year of my graduate program.

Mr. Harris: If we could get 50,000 more of you, we would not have to have any public money.

Mr. Butcher: You are quite right. The thing that is bizarre about this notion is that as I am a graduate student in philosophy, my expenses are basically the classes I attend--and as I no longer attend classes, that is not really an issue--and my supervisor's time. Clearly, that is not \$54,000 a year. So the cost of a program is something a lot more complicated than just talking about basic income units.

Mr. Harris: Let us leave graduate students aside and just get to undergraduate students. I have difficulty accepting the argument that they are subsidizing our own students. Something says that is not the case.

Mr. Butcher: Again, even if you were to have a realistic view of the cost of each and every program, that would not take into account the fact that if those programs are going to exist in the first place they are going to have a particular number of students--they must have a particular number of students--and adding students on after that base number includes only marginal costs.

Mr. Harris: If I accept that, the province then should fund a university--let us say the first 100 English students will pay \$10,000 and then the next 10 will pay only \$1,000 because there is really not much extra cost in having that student come in there. Then maybe the next 100 will pay only \$300 or \$400. Maybe that is the way we should fund, if I accept your argument.

Ms. Weir: You are going to see a zero increase in enrolment then for the next five years.

Mr. Harris: I do not accept his argument, frankly, in what he is doing, but if it makes sense, then that is the way we should fund too.

Ms. Weir: If you fund it that way, it will close the doors on accessibility in two minutes flat, perhaps less. I think one thing that has been said is that there is a commitment to accessibility in this province. If that is true, then I think this is a reasonable request in all that we have made and I have to agree with Mr. Butcher.

Mr. Harris: All I am talking about, you understand, is that somehow or other foreign students are subsidizing Ontario residents.

Ms. Weir: I know.

Mr. Sékaly: What we are talking about here is a marginal increase because you are going to have an infrastructure. The libraries, everything has to be there. When you have extra students, it is a marginal increase and that



marginal cost in economic terms is less than what they pay. That is how we come to the conclusion they are subsidizing the system.

Mr. Harris: But you would agree that does not make sense as a way to fund the system?

Ms. Weir: What you just proposed?

Mr. Harris: No, what you are proposing.

Mr. Butcher: I think we have got two money things here. You are talking about how the system should be funded and we are talking about--

Mr. Harris: No, you are telling me why this student does not cost very much.

Mr. Butcher: Yes, and you are talking about the funding of the system, which are two entirely different matters.

Mr. Harris: Right.

Mr. Butcher: We are talking about the cost per program per student and you are talking about the cost of funding the program in the first place, but it is an entirely unrelated matter.

Mr. Chairman: I do not think we are going to resolve this, and we are running a little over time. I am going to give Mr. Kozyra one question, no follow-up and a 30-second answer, and Mr. Ferraro one question, no follow-up and a 15-second answer.

Mr. Kozyra: It is one question with three parts. They all have to do with this funding in dollars. I want rapid-fire reaction to it. Is an extension of the type of co-operative education program in the University of Waterloo a different source of funding? It is basically a high-tech form of apprenticeship, gives a person a chance to earn, and therefore maybe has fewer people going into the loans and grants situation.

Is the Americanization of our schools--maybe that is a bad term--leading to sports and TV revenues, etc., or greater alumni revenue, another way to go for extra revenue generation? Then your reaction, very briefly, on the relatives of faculty who get free tuition as perks or what have you.

Mr. Chairman: Can you do that in 30 seconds?

Ms. Weir: OK. Co-operative: a lot of students like it. It works for a lot of students. If there is a demand for more, of course we would be happy to see it. It does not always adequately respond to the need of the education that is there. After all, it is to learn, not necessarily to apply your skill. It does not work in all cases as an acceptable form of education.

So for those it would work for and for whom there would be a need, yes, it would be good.

Mr. Kozyra: Is there a need greater than is presently being served?

Ms. Weir: I would imagine so, as there are different universities that are expanding now. If that is because there is not enough money already, perhaps that could be one of the problems; in other areas, the whole co-op fee



that is incurred and what effect that has on the student bearing that cost and where the Ontario student assistance program comes into play with that.

On the Americanization, I think you are right; it is a bad word. I would not like to see our universities anything but Canadian. However, on the concept of alumni funding, I think all alumni should feel good about where they went and, if they can, give. But that aside, you cannot consider that as--

Mr. Neumann: I got a call last night.

Ms. Weir: I think you should give, fine, but I do not think that should be any sort of place where you are depending on income.

The final point, which was--

Mr. Chairman: Sports.

Mr. Kozyra: That was tied into the sports. The relatives of faculty.

Ms. Weir: The relatives of faculty, yes. I wish everybody was able to have free tuition, so I think it should be extended to all.

Mr. Ferraro: Thank you for your presentation. You make the statement on page 4, "The mere thought of a \$10,000 debt upon graduation will discourage many students from low-income backgrounds from even applying to a post-secondary institution." My question is in two parts. First, do you have a study to prove that? Second, and more important, is the problem the fact that there is the debt and it is not geared to the income of the graduate or is it the fact that there is the debt, which in an ideal world would not be there, but in our lifetimes, folks, will probably be there?

Ms. Weir: On the first point, as for being proven, it is very difficult to quantify the actual costs and what they affect. Psychologically speaking, for instance, Dr. Paul Olson at the Ontario Institute for Studies in Education talks about the burden of lower socioeconomic groups and how they can face that type of burden.

The problem is that when you have grown up in a household that fights daily with accepting a smaller burden than \$10,000 for an entire family, taking on that kind of debt voluntarily becomes a bit of a scary prospect and it does dissuade people.

Mr. Ferraro: But it hit home with me from the standpoint of personal debt. I did not come from a rich background--we were rich in other ways--but it did not discourage me in the least, knowing that I would have a debt. Hopefully, because of the fact that I was granted a loan or whatever, I would get the education and I would conceivably get a job so that I could repay that debt. It did not discourage me at all.

Ms. Weir: You were conceivably looking at a job you could get to be able to pay for it. We are talking about very large debts and no guarantee of high incomes.

Mr. Ferraro: Which is the second part of my question.

Ms. Weir: I think also that you have to look at the problem that you are not every student either. I have had people who have sat down at an OSAP clinic at Laurentian University and said: "I cannot take any more of this

loan. I am sorry, I will have to leave. I will have to go out and work. I have to do something. I cannot continue with my studies."

Mr. Ferraro: We have politicians saying that every day and they get into trouble as a result. But the question I do want answered is, is the problem that the debt is not geared to the income or the potential income of the graduate?

Ms. Potter: Sure, part of it.

Ms. Weir: Part of it, but income-contingent repayment plans are a very frightening thing, as is rationalization, in any plan. That would have to be looked at over a long course of time and it is very difficult to say in a quick moment.

Mr. Ferraro: So they should be more flexible.

Ms. Weir: I think the original statement about more progressive taxation is much more viable.

Mr. Chairman: That is a good point to end on. I think you have obviously pricked a lot of interest. It was a good presentation. Again, thank you very much for coming.

Ms. Weir: Thank you.

Mr. Chairman: Moving right along, we have the association canadienne-française de l'Ontario. Je suis ravi de vous présenter l'Association canadienne-française de l'Ontario, représentée aujourd'hui par M<sup>me</sup> Catherine Lengyel et M. Jacques Marchand. Je vous donne la parole.

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#### ASSOCIATION CANADIENNE-FRANCAISE DE L'ONTARIO

M. Marchand: Merci, Monsieur le Président. Pour la première fois de son histoire, l'Association canadienne-française de l'Ontario se présente devant un comité de l'Assemblée législative pour énoncer sa position sur des questions d'ordre financier dans le cadre des consultations prébudgétaires.

L'adoption de la Loi de 1986 sur les services en français, ainsi que les amendements apportés à la Loi sur l'éducation par rapport à la gestion des écoles francophones, nous accordent certains droits. Une étape importante de l'histoire des Franco-Ontariens a été franchie. Cependant, les droits n'existent pas dans un vacuum. Pour les mettre en pratique, il nous faut de l'argent. C'est aussi simple que cela et c'est pour cette raison que nous nous présentons devant vous aujourd'hui.

L'Assemblée législative de l'Ontario a adopté, avec l'appui unanime des trois partis, la Loi sur les services en français. Cette loi est présentement, comme vous le savez, en voie d'implantation dans les ministères, les commissions et les agences du gouvernement provincial. Le droit aux services accordé par cette loi entre en vigueur le 18 novembre 1989. Nous prenons pour acquis que le gouvernement est en train d'allouer les ressources nécessaires pour permettre une implantation et une promotion justes de cette Loi.

Nous ne voulons pas nous attarder présentement à la question des budgets globaux nécessaires à la mise en oeuvre de la Loi sur les services en

français. Nous aimerions plutôt porter à votre attention trois domaines précis qui, à notre avis, nécessitent un financement supplémentaire si la pleine portée des droits accordés aux francophones de l'Ontario est pour être respectée. Il s'agit de trois domaines qui relèvent du secteur de l'éducation, soit l'éducation postsecondaire, les conseils scolaires de langue française et la garde d'enfants.

L'importance et la valeur des études supérieures dans notre société sont de plus en plus reconnues. En vertu de la Loi de 1986 sur les services en français, les francophones ont droit à des ressources, à des établissements et à un accès aux services égaux à ceux accordés à la population en général.

Pourtant, la situation des francophones au niveau postsecondaire est de ce point de vue des plus alarmante. Selon de récentes études, le taux de participation des francophones aux études postsecondaires est inférieur de 50 pour cent à la moyenne provinciale. En d'autres mots, il n'y a que la moitié des francophones qui poursuivent leurs études au niveau postsecondaire comparativement à la population ontarienne, et de ce fait, tous les ans plus de 7000 jeunes qui devraient être dans le système, ne le sont pas.

Ces mêmes études démontrent que le taux de participation des francophones aux études postsecondaires est lié à la disponibilité de programmes en français. Il existe en Ontario, vous me direz, six collèges et quatre établissements universitaires définis comme étant bilingues. C'est faux. La nomenclature utilisée par le gouvernement et par ces institutions induit en erreur. Il existe, au contraire, des collèges et des universités anglophones qui offrent certains cours ou programmes en français. Même l'Université d'Ottawa, qui offre pourtant le plus de programmes en français de toutes ces institutions, n'est pas un milieu véritablement bilingue. Pour l'ensemble des collèges, sur plus de 300 programmes disponibles en Ontario, seulement 66 le sont en français, et cela souvent de façon partielle. Dans les universités dites bilingues, il n'existe presque aucun programme entièrement ou partiellement disponible en français du côté des sciences, du génie et de l'informatique.

Par ailleurs, les données sur les programmes ne font pas état des problèmes réels rencontrés par les étudiants qui désirent poursuivre leurs études en français: conflits d'horaire, manque de matériel pédagogique en français, etc. Et que dire d'un programme de trois ans en sciences politiques, par exemple, qui compte seulement deux professeurs qualifiés pour enseigner en français?

Des décisions sérieuses devront être prises dans les prochaines années face à l'avenir de l'éducation postsecondaire en français. Ces décisions comporteront également des engagements financiers importants. Pour la prochaine année, nous recommandons donc: (1) que le financement nécessaire soit accordé pour assurer la mise sur pied d'un collège francophone dans l'Est ontarien; (2) que le processus nécessaire soit entamé pour voir à la mise sur pied de collèges francophones dans les autres régions de la province; et (3) que des études sérieuses soient entamées pour voir à la fondation d'une institution universitaire de langue française en Ontario.

Nous n'arrivons pas à ces recommandations de façon légère. Outre les données sur le faible taux de participation des Franco-Ontariens aux études postsecondaires, nous constatons également le besoin grandissant de professionnels de langue française dans les domaines tels la santé et les services sociaux, entre autres. Enfin, nous reconnaissons que les collèges et les universités sont des milieux d'épanouissement qui forment nos leaders de



demain. En perpétuant le système actuel, chaque année des milliers de Franco-Ontariens ne participent pas pleinement, en termes économiques et sociaux, à notre société. Il s'agit là d'un coût qui risque d'être fort élevé à l'avenir. Il vaut mieux investir les ressources nécessaires dès aujourd'hui plutôt que de payer trop cher plus tard.

Certains d'entre vous serez peut-être surpris de voir que nous venons vous parler de financement dans le domaine de l'éducation primaire et secondaire. Vous vous direz que les amendements apportés, en juin 1986, à la Loi sur l'éducation, accordant une forme de gestion scolaire aux francophones, auraient dû résoudre les problèmes traditionnels vécus dans nos écoles francophones. Cependant, un droit de gestion, à lui seul, demeure insuffisant et illusoire s'il n'est pas accompagné de pouvoirs de financement. Avec le système tel qu'il est conçu à l'heure actuelle, nous nous retrouvons constamment dans l'obligation de faire appel au gouvernement pour régler des situations de conflit. En situations de crise, nous devons dépendre de commissions d'enquête qui recommandent des solutions qui, par la suite, ne seront même pas nécessairement retenues, comme dans le cas de Prescott-Russell.

Une approche plus cohérente et mieux structurée est nécessaire pour la mise sur pied et la planification de conseils scolaires de langue française à court et à long terme. Ainsi, nous recommandons: (1) qu'un mécanisme de planification et d'implantation, telle la commission de mise en oeuvre des écoles catholiques, soit établi pour les conseils scolaires francophones; et (2) qu'un financement permanent et adéquat soit assuré au conseil scolaire francophone d'Ottawa-Carleton, et ailleurs dans la province, afin de permettre l'établissement d'un système de qualité et d'accessibilité égal au système anglophone.

Comparativement au réseau de garderies de langue anglaise, lui-même insuffisamment développé, aux dires des intervenants concernés, le réseau de garderies francophones souffre d'un sous-développement marqué. Selon les dernières statistiques disponibles, seulement 1,5 pour cent des garderies en Ontario sont de langue française, alors que la population francophone se chiffre à cinq pour cent de la population totale. D'ailleurs, ce chiffre est surestimé, du fait qu'un bon nombre d'enfants anglophones fréquentent les garderies francophones.

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Nous pouvons en conclure que nos jeunes Franco-Ontariens s'amuse et découvrent la vie en anglais dans les garderies partout dans la province, s'initiant très tôt au processus de l'assimilation à la majorité anglophone -- cela à un âge où l'apprentissage linguistique et culturel est d'une importance cruciale et malgré le fait que le droit à l'éducation en français soit officiellement reconnu dans cette province.

Bien que les politiques et programmes provinciaux dans ce domaine soient devenus plus favorables à l'implantation de garderies francophones, l'étendue du rattrapage nécessaire milite en faveur d'une approche plus active de la part du gouvernement pour assurer le développement d'un nombre suffisant de garderies francophones.

Les mesures suivantes devraient, à notre avis, être prises dans la prochaine année pour pallier le retard accumulé et pour rencontrer les besoins spécifiques de garderies francophones: (1) Des fonds supplémentaires devraient être alloués aux garderies francophones pour contrer la période de non-rentabilité plus longue, pour défrayer les coûts supplémentaires de



publicité, de transport, de recrutement et d'achat de matériel pédagogique, ainsi que pour encourager la mise sur pied de garderies plus petites, là où la rentabilité ne pourra jamais être atteinte; (2) des agents de développement devraient être nommés au sein du ministère afin de travailler avec la communauté francophone pour la mise sur pied de garderies; et (3) du financement opérationnel devrait être accordé pour faciliter la mise sur pied d'un réseau provincial de garderies francophones ayant un rôle de développement et de ressourcement.

En effet, le besoin d'un réseau complet de services de garde en français est évident. Partout où il y a des francophones, il existe un besoin de services de garde en français. Le réseau francophone a beaucoup de rattrapage à faire et, de ce fait, a besoin qu'on lui alloue des ressources supplémentaires.

Pour nous, les Franco-Ontariens, la fin de ce siècle et l'avènement du prochain millénaire se veulent être le début d'un temps nouveau. C'est en tant que citoyens à part entière que nous entendons contribuer à l'épanouissement de notre province. L'adoption de la Loi de 1986 sur les services en français nous aidera à accomplir de telles aspirations. Cependant, la reconnaissance de nos droits doit être accompagnée d'un investissement de premier ordre. Nous avons favorisé les trois domaines considérés plus haut parce qu'ils constituent la pierre angulaire de la promotion et du développement de notre communauté.

Nous voulons et nous pouvons contribuer à l'épanouissement de l'Ontario. Pour ce faire, il faut cependant bien outiller la communauté franco-ontarienne. Ce sera alors, et alors seulement, que l'Ontario touchera un retour sur son investissement.

Je vous remercie, Monsieur le Président.

M. Polsinelli: Je voudrais vous remercier pour votre présentation. Je m'excuse parce que maintenant je dois parler anglais pour m'expliquer.

I was very interested in your presentation. You do understand English, I take it?

Mr. Marchand: Yes, I do.

Mr. Polsinelli: Good, because I have a very limited understanding of French. I did try to follow you in French and I think I at least obtained the gist of your presentation, if not every word. I was very interested in your initial recommendations, where you are talking about the expansion of post-secondary French education in Ontario, and I think there is a need for that. I have a daughter who is in an immersion school. I am very happy with her progress and I would like to think that at some point in her future she could attend some post-secondary education in the French language if she wanted to when she became old enough to make that decision herself.

But I have heard that, at least in the Metropolitan system, the expansion of the immersion programs is limited not necessarily by the financial resources but by the number of instructors they can find in the French language and that, in fact, they are expanding on the basis of the number of teachers they can find who are able to occupy and teach in the French language.

Would you comment on whether or not that is in fact true in Metropolitan

Toronto or anyplace else in the province? And if that is true, would you not also be facing a similar problem in expanding post-secondary education facilities in the French language?

M. Marchand: Je ne suis pas certain si j'ai bien compris votre question. Parlez-vous d'immersion?

Mr. Polsinelli: I was talking about the restriction of the expansion of the French-immersion programs in Toronto. That expansion is limited to the number of teachers. They will expand the programs as they find more teachers--

Interjection: Qualified teachers.

Mr. Polsinelli: --more qualified teachers to teach in French. They will have more immersion schools, more French-language schools as they can find more teachers to teach in the French language. I was wondering whether in fact that is a reality or whether that is just a rumour I have been hearing. If that is the case, would you not also be facing similar problems in the expansion of post-secondary French-language education?

M. Marchand: Je croyais que vous parliez d'immersion, et puis je vous ferais remarquer que dans notre mémoire, nos recommandations, nous ne parlions pas de cours d'immersion, nous parlions d'éducation française pour les francophones dans nos écoles francophones, et de même au postsecondaire.

M. Polsinelli: J'ai compris ça, mais s'il y a ce problème dans les écoles d'immersion, peut-être y a-t-il ce même problème dans les écoles francophones, n'est-ce pas?

M. Marchand: Le manque de professeurs qualifiés dans les écoles élémentaires francophones, je ne pense pas que ce soit un problème aujourd'hui, non.

M. Polsinelli: Non?

M. Marchand: Non.

M. Polsinelli: Merci.

Mr. Chairman: Any other questions? Mr. Harris.

Mr. Harris: I will follow up. I will go in English, too, because my French is not that good.

In just following up with Mr. Polsinelli's comments, when you are talking post-secondary education, you are talking French-language schools for francophones?

Mr. Marchand: That is correct.

Mr. Harris: Do you see a difference at the university level between French-language schools for francophones and French-language schools for non-francophones?

M. Marchand: Au niveau postsecondaire? Encore une fois, ici, le problème que nous voyons au niveau postsecondaire, c'est que depuis longtemps à l'élémentaire nous avons des écoles françaises; en 1969-1970 environ, nous avons établi des écoles secondaires françaises. Nos étudiants n'ayant pas la

possibilité de suivre leurs cours postsecondaires en français, bon nombre d'entre eux ne le font simplement pas. S'il le font, ils doivent le faire dans des institutions anglophones qui, parfois, offrent certains programmes en français. Un des résultats, à notre avis, en est le faible taux de participation des francophones aux cours postsecondaires, soit à l'université ou dans les collèges techniques.

Mme Lengyel: Est-ce que je peux ajouter quelque chose? Nous, on parle d'institutions postsecondaires francophones par opposition à des institutions dites bilingues, qui n'existent pas vraiment en Ontario. Je m'imagine que ces institutions seraient ouvertes aux gens qui veulent étudier en français, que ce soient des gens issus des écoles francophones ou des écoles d'immersion, et qui seraient assujettis -- comme du côté anglais, où on a «English as a second language tests» --, du côté français, probablement à un niveau de compétence de la langue. Mais ce serait le seul critère qui régirait l'accessibilité à ces institutions-là du côté des étudiants.

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Mr. Harris: I would agree, and let me say that I think the greatest allies you have in the demand and the request for post-secondary funding are those students who are now coming through French-immersion programs and through the secondary level as well. They are natural allies, as opposed to whatever percentage of francophone students are going on. I agree with you; I think there is some disincentive. I think there are some other reasons, too, other than the hard numbers, but there is some disincentive for francophone students going on.

I got into trouble with the last group on rationalization. I would assume that what you are really looking for is more rationalized French-language institutions as opposed to French-language programs being offered in every institution. This would be preferable?

M. Marchand: Exactement.

Mr. Harris: With the only requirement being a language requirement, not a francophone-anglophone background requirement.

M. Marchand: Bien. Evidemment, si l'institution elle-même est pour être francophone, il faut présumément parler le français afin de pouvoir opter pour cette institution-là. Les étudiants ne devraient pas nécessairement venir uniquement des écoles francophones, pour répondre à votre question précédente.

Mr. Chairman: I should point out for the record that, if I was observing correctly, I think Mr. Harris did not use his translator, so his French is not that bad.

Mr. Haggerty: I want to address a question to the panel. There is one French college, the agricultural college in Alfred, Ontario. How successful is that now? It has been in operation for the last three or four years.

Mme Lengyel: Je n'ai pas de détails, outre le fait qu'on me dit que les inscriptions ont diminué dernièrement. Donc, dans ce sens-là, on pourrait dire que ce n'est peut-être pas une réussite du côté du nombre d'inscriptions, mais les raisons de cet état de choses ne sont pas claires. Probablement qu'elles sont attachées au domaine de l'agriculture en général, à l'avenir de ce domaine-là, et non au fait que ce soit une institution francophone. Mais il



est vrai que c'est la seule, en ce moment, qui soit une institution de langue française.

Mr. Haggerty: Is there any way we can improve if the enrolment is going down in areas where maybe there are a lot of students attending the college? They may now change their minds and not go into the agricultural sector. Is there some area in which you can improve on the present facilities in that area that offers other courses in French to attain, say, different degrees and so on?

M. Marchand: Je ne sais vraiment pas si les facilités à Alfred s'adapteraient à d'autres sortes de cours postsecondaires. Je n'ai jamais pensé trop trop que ce serait le lieu précis où nous voudrions avoir nos premières institutions francophones, toutefois.

Mr. Haggerty: I know at that college they do have home economics courses. Many of the students I have been informed of in my meetings with them in that area who were in home economics have gone on and entered the hospitality industry, even hospitals, where some of them are dealing with nutrition. I understand there was a pretty reasonable program available.

Where would you suggest that schools should be built if funding were available or the government moved into this area to fulfil its French education program? What areas would you be looking at, then, for French post-secondary schools or colleges?

M. Marchand: Notre mémoire suggère que notre première priorité, ce serait un collège communautaire dans la région de l'Est de l'Ontario, présumément à Ottawa, et par la suite, la création d'autres collèges communautaires: évidemment, un à Sudbury pour desservir le Nord et un autre à Toronto pour desservir le centre.

Mme Lengyel: Avec des options multicampus, possiblement. C'est quelque chose qu'on est en train d'étudier en ce moment, particulièrement pour les régions du Nord et du Sud de l'Ontario.

Mr. Haggerty: I represent the riding of Niagara South in the Niagara Peninsula, and there is an exceptionally good French school program, both at the elementary level and at the secondary level. Much of that at the secondary level is being funded by the overall school board at the county level. Public and separate schools are both contributing to it. Now, that has worked very well.

I was a little concerned when you said you think that maybe Ottawa should be the centre for a college or a university in French. What about Hull, Quebec? Are there not facilities available on the other side that are close to it, and maybe one could say northern Ontario should be a place--say, Hearst, North Bay or someplace in that area, maybe a secondary school up there? I was thinking of the old Haileybury School of Mines up there. I do not know if it is in operation or not any more, Mr. Chairman.

Mr. Harris: Yes.

Mr. Haggerty: It is, is it Mike?

Mr. Harris: Just, but it is fighting.

Mr. Haggerty: Well, that is what I am looking at. You know, maybe there are possibilities in that area.



M. Marchand: D'abord, Monsieur, si votre comité veut établir un collège communautaire francophone dans la région de Niagara Falls, nous en serions très heureux. La raison pour laquelle nous suggérons que le premier collège communautaire francophone soit établi à Ottawa, c'est que présentement à Ottawa il y a, comme vous le savez sans doute, le rapport Lortie, qui est sorti dernièrement et qui suggérait une unité française au collège Algonquin et démontrait sans aucun doute qu'il y avait suffisamment d'élèves et de professeurs pour soutenir un collège francophone. Pour ce qui est de Hull, je crois que ce n'est ni dans le désir ni dans l'intérêt des Franco-Ontariens d'aller suivre leurs études postsecondaires en dehors de notre province. Nous voulons être chez nous ici et nous croyons que nous pouvons avoir nos institutions à l'intérieur de notre province.

Mme Lengyel: Peut-être un point d'information par rapport à Hull. Le gouvernement du Québec est en train d'établir un collège d'enseignement général et professionnel anglophone dans la région de Hull, peut-être pour attirer les anglophones d'Ottawa, je ne sais pas.

Mr. Harris: Can I just follow up on that?

Mr. Haggerty: Yes. I am finished.

Mr. Harris: I just want to make sure. We talk about the university and the community college. L'ACFO at Nipissing made a presentation recently for the Canadore community college to designate itself a bilingual college. I just want to understand. If the choice was for Canadore, Cambrian in Sudbury and the community college in Timmins all to designate themselves bilingual, or to have a French-language community college in, say, Sudbury, for northeastern Ontario, which would you prefer?

M. Marchand: C'est là un peu, Monsieur Harris, qu'est le dilemme pour nous d'après les données de la Loi sur les services en français, qui permettrait à certains collèges de se désigner. Puis nous prévoyons que, à ce moment-là, les ressources humaines et aussi les ressources financières seraient placées dans ces institutions.

Ce n'est pas tout à fait ce que nous désirons. Nous désirons beaucoup plus. Nous croyons que c'est une façon beaucoup plus efficace d'attirer nos élèves francophones que d'avoir des institutions francophones. Le milieu, l'environnement aiderait au développement de ces élèves-là et, croyons-nous, serait très bénéfique pour eux et pour la communauté.

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Mme Lengyel: Nous avons eu, hier et avant-hier, la réunion de notre conseil provincial de l'ACFO, où l'ACFO-Nipissing était représentée et où Mme Julie Champagne nous a indiqué qu'ils avaient fait cette démarche-là parce qu'ils agissaient dans le contexte de ce qui était permis à ce moment-là par la Loi sur les services en français. Mais le débat procède très rapidement en ce moment dans la communauté francophone, et hier, au conseil provincial, il y a eu une résolution stipulant que les gens appuyaient le concept de collèges francophones plutôt que celui de la désignation partielle des programmes en français partout dans la province.

Mr. Chairman: Thank you very much. That was a fine presentation, and I am sure we will take it into consideration. I know the Treasury officials were listening as well.

The next presentation we have is the Ontario Association of Alternative and Independent Schools. I understand Mr. McBurney is here. Your presentation is being distributed to us just now, so perhaps you could lead us through it and then entertain some questions.

Mr. McBurney: Are we ready to go?

Mr. Chairman: Ready to go, yes.

Mr. McBurney: The end of a long day?

Mr. Chairman: It has been. We have been going since one o'clock, so that is why members are taking a break. I may take a quick break as soon as you get started, too. Just go ahead. We are listening all the time.

#### ONTARIO ASSOCIATION OF ALTERNATIVE AND INDEPENDENT SCHOOLS

Mr. McBurney: OK, I will forgo the ritual joke and just get right into the topic. I will read our presentation, which is about 10 minutes, and then we will take your questions. Accompanying me is my president, Arthur Hordyk.

The Ontario Association of Alternative and Independent Schools welcomes this opportunity to appear. In this submission we are asking the standing committee on finance and economic affairs to include in its budgetary recommendations a provision for a very small but socially significant government grant to help complete the work of the OAAIS Ontario education policy options task force, the mandate of which has been given to you as a background paper.

The committee may view the nature of this request and the very modest amount we are talking about as somewhat unusual in terms of the submissions you usually get, but for reasons that follow, I think you will see that there is ample justification to give serious consideration to this request.

OAAIS seeks the development of a provincial education policy that will support all schools functioning in the public interest. We have consistently urged the government to make a conscious commitment to diversity in education as a stated education policy.

In fact, the pluralization of Ontario's overall education system is already well advanced. Full funding for public, separate and now francophone school systems is being augmented by the purposeful diversification of schools with a difference under several boards of education, plus such things as the government's initiative for third-language instruction to various communities upon demand.

A more precisely defined and publicly supported place for the kinds of educational choices represented in independent schools is, of course, the major thrust of the October 1985 report of the commission of inquiry on private schools.

The anticipated support of independent schools is also acknowledged in the carefully chosen language of the December 1985 report of the Commission on the Financing of Elementary and Secondary Education, which says, among other things, in its concluding remarks:

"We may discover that the traditional limits of education are no longer

applicable and that the traditional responsibilities of education may have to be reshaped.... If the role of education in society were to be redefined in the long term, it follows that the arrangements for funding education should be revised in keeping with these principles.... It is only through better human feeling and the enduring ideals of education that we may draw together the method and purpose of education finance. We strongly believe Ontario is ready to meet that challenge in the spirit it deserves."

The committee members will be aware of the widespread sentiment in our province that, in fairness, the government should take steps to relieve the oppressive and unnecessary financial burden borne by parents who choose to send their child to an independent school. The expectation that it will do so is general enough to have attracted some perverse commentary in the doom and gloom speculations of the Ontario public education network which, in the name of tolerance, continues to foment discrimination against people who enroll their children in anything but public schools.

A common complaint by the vocal defenders of the old order of Ontario education, as well as those who recognize the need for change and are prepared to deal with it in good faith, is that no public discussion format was provided for the policy issues arising from the June 1984 decision to fully fund Roman Catholic public schools. A minority government and the judicial review processes surrounding the passage of Bill 30 contributed to the difficulty of establishing such a format from mid-1984 to at least mid-1987.

As an association with a long involvement in the very issues opened up by the full funding of Catholic schools, the Ontario Association of Alternative and Independent Schools directors decided in September 1987 to establish an Ontario education policy options task force. It is apparent from the materials you have before you that the staffing of the task force and its advisory panel represents a wide variety of people, communities and organizations of our province. This representation has been broadened as the project has developed, and we remain open to participation by other groups or organizations who may wish to contribute to the task force work.

You will see that we leave behind two copies only, because they are scarce, of the task force draft interim report, which came out in January. I will not for the moment read the members of the task force itself, but I think you should know some of the people who are on the advisory panel. These people are free to advise the task force during the course of its work, and they have promised to add their commentary to the finished work of the task force, which we hope can be published and distributed in due course.

These people are, for the moment, Sandra Anderson, the past chairperson of the Calgary Board of Education; Iain Davidson, an associate professor of special education, Ontario Institute for Studies in Education; Bryan Finlay, the solicitor from Weir, Foulds who represented the Coalition for Public Education on Bill 30 in the Supreme Court; Raymond Hodgson, who is the program director of church and societal affairs with the Presbyterian Church in Canada; Mimi Marrocco, professor, school of continuing education at St. Michael's College here in Toronto; Gordon Nodwell, the minister of Deer Park United Church; Clifford Pitt, currently president of the Institute for Christian Studies and formerly of OISE and the Ontario College of Art; Wendy Priesnitz, a director of the Canadian Alliance of Home Schoolers; Mel Shipman, a former chairman of the North York Board of Education, who is presently an education policy and programs consultant to several boards of education; and Brian Stiller, the executive director of the Evangelical Fellowship of Canada.



To this distinguished list, other names are being added. It is worth noting that, except for myself, all of these people serve without remuneration. One of the purposes of the request we bring to you is to be able to recompense these people for the out-of-pocket expenses they incur by voluntarily exercising their civic responsibility for the greater good of Ontarians overall.

The task force itself began to review the education acts of the provinces which presently support independent schools--namely, British Columbia, Alberta, Saskatchewan, Manitoba and Quebec--and the comprehensive recommendations of the report of the Commission on Private Schools in Ontario, in the light of our own association's policy statement of principles, "Public Rights and Public Responsibilities." Some of you are familiar with that document. It was developed in consultation with member and nonmember schools and people in the other provinces over an 18-month period in 1981 and 1982. It addresses the need to show public accountability in curriculum matters, teacher training and employment practice, student admission policy and the other elements of responsible school governance.

The policy statement is well known to the principal shareholders of education in Ontario. In fact, it was, prior to the announcement of full funding for Catholic schools in 1984, the focus of some Ministry of Education studies concerned with the possible funding of independent schools.

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Nearly all informed reflection about how to support schools with differing educational philosophies or teaching methods centres on two questions. First, how can the government fulfil its duty to satisfy the public that children are being responsibly educated? Second, what is the most equitable and efficient manner in administering the school-government relationship where the passage of grants is involved, in other words, a standard administrative mechanism.

The task force in the first phase of its work came to early agreement with the main observation of the private schools commission report that a "satisfactory instruction" definition is needed for Ontario, which identifies the subject matter and social attitudes which make for a literate, industrious and tolerant society. I think it is a major achievement of the task force, as seen in the January report, that a "satisfactory instruction" definition has been developed by consensus out of a careful review of the definition provided first by recommendations 1 and 2 from the 1985 Shapiro commission report.

As an indication of the open-ended nature of our study, the fourth draft definition is the one that has been given you today. It is not the one that is in the report. That has been superseded by the current one, which incorporates refinements offered to the study group by the task force advisory panel at a general meeting of the task force, the advisory panel and the directors of my association. Indeed, that "satisfactory instruction" standard may undergo further modification as it is vetted by our membership and others who see the need for a "satisfactory instruction" standard for all Ontario schools. You will be well aware that at the moment there is no such thing.

Currently, the study group is reviewing some possible school-government administrative models. We are using principles of equity, simplicity, efficiency and codeterminant decision-making in that study. You will see from the task force mandate, which we gave you today, that a draft final report is to be ready by April 1988. As soon as possible thereafter, the definitive



final report is to be drawn up, including the individual commentaries of members of the advisory panel. We believe the final document will deserve to be widely distributed as a resource for all parties interested in the subject of education by choice.

A budget of \$50,000 will cover the costs of the policy options task force, including the publication of 1,000 copies of the finished report. A budget estimate is attached as part of this presentation. I think you will see it is an extremely cost-efficient project of potentially great worth to the public and the government. We are really here today to ask that the government reward the initiative taken by the creation of this task force by underwriting its costs. We hope that you, the standing committee, will make this recommendation as part of your prebudget counselling to the government.

Mr. Chairman: That is certainly one of the less expensive submissions we have heard.

Mr. Neumann: Step one.

Mr. Chairman: That is right. What you are basically asking for is some funding to assist you in your work to change government policy, which is not impossible, but I am wondering if you have gone to any particular ministry, perhaps the Ministry of Education, and asked if there is anything in its budget at the moment for that.

Mr. McBurney: Apparently there is nothing there at the moment. We have raised the question, and the advice we got is that it might be more appropriate to approach government in general than the ministry, which has yet to make any formal response to the Shapiro commission report.

Mr. Chairman: All right. That is why you are basically asking for that to be in the budget.

Mr. Kozyra: In pursuing alternative and independent schools, I guess one of the messages you might give is that there is some room for improvement in present systems, the larger systems. Does your group put forth any efforts towards improving from within, rather than withdrawing and setting up a separate system? That is not a criticism. It is just for information.

Mr. McBurney: No. The existence of independent schools is a criticism of publicly funded boards only in so far as they have not been able, through the structure of things or sometimes their willingness, to provide the kinds of alternatives that these people want, and indeed, many people have tried.

My own entry into this whole area, from the years I first worked in the investment business and had nothing to do with it, other than that I was a parent with children in independent schools, was to try to work with the board of education. But all the attempts to create alternatives break down because the present regulations do not build in the principle of diversity and the principles which we have tried to produce in our public rights statement, which is the appendix in this booklet.

It seems to us that if you are going to consciously go towards diversity, then you have to make room for different philosophical understandings, different methodologies in education, different starting ages, different time allotments, different sequencing, different interpretations of course guidelines. To some extent we see that, but unless there is a conscious change of policy, the boards are really kind of handcuffed now.

We are aware that even now there are some independent schools which are endeavouring to work out some relationships. The Eden Christian College has a hopeful negotiation going with the Lincoln county board to do that.

The attempts have been made, but as you know, it takes a generation to change policy, and meanwhile, children are growing up.

Mr. Kozyra: I suppose if lack of diversity is a perceived problem now, the Radwanski report would create even further complications to that by limiting this range of diversity. Have you had a chance to see that to react to it?

Mr. McBurney: I have missed your point. What we are trying to do is increase the range of options available.

Mr. Kozyra: I realize that, but I am just saying the way the direction of the report seems to be going is to limit that direction and perhaps complicate the problem.

Mr. McBurney: The Shapiro commission report?

Mr. Kozyra: No, the Radwanski report.

Mr. McBurney: Oh, the Radwanski report. Well--

Mr. Kozyra: It basically suggests going back to many of the things that there were 30 years ago.

Mr. McBurney: I suppose we will have to wait to see what the people say about that. I would perhaps say that is one journalist's opinion. Dr. Shapiro's credentials and the comprehensive look he took at education is to say the social reality is towards diversity. Within that, of course, you can agree on some general standards, but what we are trying to show in the "satisfactory instruction" requirement that you have in front of you is that you can name in general the contents of education, including a tolerance test in terms of the important homogeneity we strive for in our society, and at the same time leave responsible, local self-development so the execution can be different.

There are lots of examples that that works. The simplest one, I suppose, is the presence of a separate school system, which for years has had its confessional stamp and has had no difficulty meeting the provincial standards in education.

Mr. Chairman: Did you have your hand up, Mr. Neumann?

Mr. Neumann: Yes, I did.

On page 4, you indicate as an objective "a literate, industrious and tolerant society." One of the criticisms I have heard of the approach of having independent schools is that children do not learn tolerance. If they are going to separate schools and if you have a proliferation of schools, then children who all grow up in one neighbourhood are all heading off to different schools, perceiving themselves as being different and perhaps do not learn to tolerate the differences in the same way. I am talking about cultural and ethnic and racial differences within a pluralistic society. How do you respond to that?

Mr. McBurney: I guess I can respond by asking you if you see any evidence that is true. That is a kind of doctrine which gets preached, and it is kind of offensive to me when some highly paid directors of education and trustees take this approach that private schools divide, as though there were not problems in public schools.

There is no evidence to suggest that whatsoever. In fact, much to the contrary, in our representations to both the Ontario Court of Appeal and the Supreme Court of Canada on Bill 30, we had affidavits from public figures in provinces that support independent schools to say that these schools are tolerant and that the social bond has been strengthened through the independent funding of their independent schools. That is very clear from the Coleman report in the United States, showing that racial integration is more prominent in the private schools in the United States. You can argue about it all day, but I simply say to people, "You should go and see." What these schools do, of course, is teach within a context, usually some community idea where they are stressing service to their community and service to their fellow man.

But to meet that objection, we agreed with Dr. Shapiro who included what I call a tolerance test among the requirements of his satisfactory instruction requirement that indeed schools ought not to teach doctrines of racial or religious intolerance or the violent overthrow of government. I think that is the way it is stated in the British Columbia legislation, but we go beyond that to say there ought to be a positive commitment in schools to teach tolerance and respect for other people even though you might disagree quite strongly with their ideology. I think that is the nature of democratic society. Of course, our challenge as an independent school association, is that public schools, whether separate or otherwise, should make the same commitment.

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Mr. Neumann: Do the independent schools of Ontario reflect the cultural, ethnic and religious diversity of the province?

Mr. McBurney: Very much so.

Mr. Neumann: Have there been any studies?

Mr. McBurney: There is a dearth of studies. There needs to be more done. There are limited things that are available. For example, in British Columbia in 1978, I think, they did a study called The Consequences of Funding Independent Schools, taking a look at what was going on in those schools and they found out, particularly in an economic sense, that they are very typical of the province at large. The mean incomes for the independent schools were marginally less than across the province.

We did that for our own membership, which is a study of a smaller compass, for the Shapiro commission report and found precisely the same thing. The majority of the families in the association are making net total family incomes of less than \$30,000. So that elitist label, I think, is a misfit. Elitism sometimes is a function of where you live, so that the schools of the wealthier areas of North York have quite a different social composition and maybe even teaching standards from those you will find in downtown Toronto.

Mr. Hordyk: If I might add to that, Mr. Chairman. If you look at the cross-section of our association, you will find the Waldorf schools and the



Montessori schools and you will find many Christian reform, Canadian reform schools as well as Seventh Day Adventists. Of course, they have different reasons for having their own independent schools.

Montessori has a specific system in which they start educating children at two or three years old. At the Waldorf school, they graduate with the class; you get the teacher and he stays with that class until it graduates.

Concerning the Christian schools, I am a product of a Christian school myself and my children are all going there, funded by ourselves at the rate of \$5,000 a year. The reason is that we believe that we should make critical thinkers out of our children but, nevertheless, we also should be allowed to do some confessional teaching on the basis of, in our case, the Bible.

The end results that we are looking for are upright citizens who are going to be an asset, or they are going to contribute, to the society that we live in--in this case, Canada, of course. I am an immigrant from Holland, originally, and I am now running a business here in Toronto.

What I am saying is, of course, we are going to have citizens that will blend in with the society. We are not looking for someone who is going to be separate in all areas. We want to make sure that they are honest, upright and first-class citizens.

Mr. Harris: It is a very unusual request you have for us. You are basically saying: "We are doing this study and it is almost done. Whether you want it or not, government, we think you should want it, and will you pay for it?" Was there any attempt made to ask the government for funding before the decision was made to proceed as you have proceeded?

Mr. McBurney: On this project?

Mr. Harris: I am not saying you should not get it, but you will admit it is an unusual request.

Mr. McBurney: It was really conceived the previous August at what we call our board staff retreat, which we have every year in August. Things had not really settled down in terms of the new Legislature. Our perception is that the spokesmen for the government have said on a number of occasions that it would be responding to the Shapiro commission report. In this vacuum, we were unable to get much of a discussion going. Then we said, "Why wait? It is publicly responsible. We will see what we can do in terms of attracting responsible people to the study." So we went ahead on that basis. We were kind of at the same time talking, as our opportunities allowed, with the ministry and other members of the parties.

We invited all three parties to participate in this study. Because it is unusual, I think it is one of those things that is a little hard to adapt to. The government did not have a voice in setting the terms of reference and may have felt, in the absence of a commitment, unable to react immediately. But there was some informal conversation looking for support. It was not developing at the speed we thought was necessary.

On all sides, we have heard people say what has been lacking in this situation is some kind of forum where we can discuss the principles involved here, because people, I think, are quite conscious that something very fundamental is changing in terms of the way we perceive our educational systems. As was put at the Canadian Education Association conference by a



number of speakers--Dr. Shapiro probably made the most notable address to that effect--the old social consensus that made the operation of public schools simple has gone. What do people do in the interval? Seven out of 10 people in Ontario, by poll, are saying, "If you can have one confessional system, you are going to have to do something for the others."

It was really what you would call in a sense of vacuum that we felt it was important for our process of reflection, to say nothing of the public dimensions of this discussion, to get started. Like we have often done in our association, we trust to divine Providence to help us along and we dare to believe that sometimes includes government. So here we are.

Mr. Harris: I read through a bit of the options. I gather the report is to look at options. Does the report deal with access to the schools?

Mr. McBurney: Yes. The statement of principles I referred to--unless you have looked at it, you would be at a disadvantage; and I would be glad to leave these; it is the appendix here--deals with admissions policy, teacher selection and training and certification practices. What we say is, and I think in many ways the Commission on Private Schools in Ontario report said, that schools should be open to all but you go there consciously in support of the program. That puts an onus on the school to be able to articulate what it is that makes it special. In other words, they have to be able to say, "When you come to this school, this is what we are trying to accomplish in terms of the way we present our educational program and the kinds of things we are trying to inculcate into the student."

Independent schools would be quite nervous about that kind of thing, but experience tells us that schools have a kind of self-limiting or self-regulating admissions policy, whether it is for a scholastic emphasis or special education or because it is a Jewish school, a Montessori or whatever. If the student is not of the community mind, it soon becomes apparent and by Christmas he is gone.

Parents should be in support of the program when they come to the school and allow for a due-process mechanism to adjudicate because there will be times, no doubt--there are now even without government funding. Sometimes a family will come to an independent school for reasons other than the school's stated purpose. They may be advised, "This is not the place," or they may be accepted and then found wanting. Then they sit down to talk and say: "Well, this is our confessional standard or our educational standard. Do you really think your child should be in this school? Are we supporting you in what you are trying to accomplish as parents at home?"

All of these things have to be confronted. We are not afraid of that. Indeed, we have given a lot of thought. It was quite interesting to see the development of satisfactory instruction as a requirement, but it does make a call for recognition that schools which have a particular character should be evaluated to the largest extent possible in the light of what they are trying to accomplish, assuming it meets the general goals of education and that the admission policy is to the largest extent being respected, because this school is there for a particular purpose.

I say that is no different than what goes on in a public school. Public school spokesmen sometimes say, "We are open to everybody." I simply say, "So are the schools I represent." People go to the public school on exactly the same basis. They feel they can support the program and benefit by it. That is a public admission policy.

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Mr. Harris: You have talked about different backgrounds and different goals. You did not talk, at least I did not sense you were, about streaming academically or on intelligence. It is that addressed in the report as well?

Mr. McBurney: Streaming? No, not at the moment, I do not think.

Mr. Harris: So you would not see any of the schools you represent differentiate on academic ability?

Mr. McBurney: I think they do. We did not address that, but that problem or phenomenon, I might say, is general in education. For example, some public boards will have schools which are well known to be there for achievers. We do not have a problem with that. A student should not be denied access for reasons of economic background or the colour of his skin, for example. But a college preparatory school is quite different in nature than a school for learning disabled children or a school for the arts or whatever varieties you may find.

Mr. Harris: In this study, do you get into the levels of support? Is it in that amount of detail?

Mr. McBurney: My association for years has said that the per student operating cost, basically the instructional money, should follow the student to any school that qualifies. On the independent school side, there are some associations and many independent schools that do not want funding at all. They are more interested in their right to exist and a proper working relationship with government. Our association has said the instructional money, at least that much, should follow.

Mr. Harris: How much?

Mr. McBurney: The instructional grant, the per student cost of education, for the province. What we have seen in the other provinces providing support is anywhere from 30 per cent to 80 per cent of that figure, I think, at the present.

Mr. Pelissero: I would like to pick up on a couple of points Mr. Harris raised and that you touched on towards the end: the right to exist. In fact, I had a gentleman in my constituency office on Friday on the whole question of having to go back on a yearly basis and go through more or less a rubber-stamping procedure in allowing the school to exist. He wanted to bring that to my attention. I was aware of that, but he wanted to talk about a couple of other issues and certainly funding was one of them. Mr. Harris talked about the whole question of access.

During the election campaign, I talked to a number of individuals who took a little more dogmatic approach than you are presenting today. They simply said, "You give us the money and trust us that we are going to do the right thing with it." What I am sensing in this presentation is that you recognize there has to be a balance between accountability, accessibility and some kind of administration.

Even in the study you are talking about, do you address as well the right to exist as opposed to an annual certificate that has to be issued? This gentleman's point in the constituency office was that, by and large, the

independent schools are frequently inspected, in some cases more than the public system, just to ensure that the quality of education is there. In the study, you do talk about the right to exist as well then?

Mr. McBurney: Yes, indeed. I think the satisfactory instruction requirement is the key. We feel that that should apply to all schools. If all schools can say yes to a standard such as this, or a better one as it develops, then the matter of funding should simply follow because people commit themselves to provide a wholesome education in a tolerant manner.

Without that, it is very interesting, because you do have schools which refuse even to file a notice of intention to operate their schools. They look upon their school as a ministry of their church. I think at some point there is going to come a crunch over that. Certainly it has happened in Alberta already, where Pastor Jones went to court and to jail for his belief that the government had no business in his school. We do not agree with that. What we are looking for is the appropriate relationship, and we dare to say sometimes that the government does too many prescriptive things. It ought to give more self-governing power to schools, because the government, strictly speaking, has nothing to teach.

Mr. Pelissero: You mentioned the Eden Christian College. Coming from the Niagara Peninsula, in fact at a gas station, I ran into the principal of Eden Christian College, who happened to be at one time a counsellor at Grantham High School in St. Catharines, which I attended. Some of the classmates whom I went through with, particularly in grades 11, 12 and 13, came out of the Eden system.

I just asked him very quickly how he thought the process was progressing and was he satisfied. He thought it was moving along quite well. I guess the jury was still out in terms of whether it was going to work or not, but his commitment was to stay with the system until he was satisfied that the goals and objectives he had set, as well as those of Eden Christian College, were going to be met. If that is as successful as people are looking for it to be, would your concerns be addressed, or are there concerns over and above the Eden situation that we should be considering?

Mr. McBurney: I do not think the draft agreement has been made public, but from what I know of it, it is quite general in nature and it will succeed--and I hope it succeeds--on the goodwill of the community. Given the uneven pattern of acceptance for independent schools, there are some directors of education on boards who do not have the disposition that they would want to co-operate, and I do not think you could strike a deal in those circumstances.

Our view is that it is better over time to spell out what you mean. As I understand the Eden relationship, there would be an advisory committee made up of trustees and some members of the school--and I think that is a very good principle--that would work out the arrangements and recommend them to the board. The board would give, wherever legally possible, an affirmation of that advisory committee's advice.

That principle of co-determination, I think, is a very good one to have in the agreement, but it is not nearly as precise as we would like. We would prefer to write more into legislation, setting forth the respective rights and responsibilities--and whatever mediating mechanism there is--of government and the schools. Then in case of dispute, you have something more tangible to tie on to.



We have seen these other endeavours to create affiliated relationships take place over the last 15 years and most of them that I know of eventually broke down over the selection of the principal. Or what about seniority provisions? What if you have a teacher who has seniority provisions but does not fit the credal standard of the school, that kind of thing? It seems to me we are going to have to build those things into the legislation and/or regulations.

Mr. Hordyk: We want to point out that when you are talking to someone like the principal of a school, you are talking to a smaller segment. We represent all the schools. We are the only association that has this broad coverage, from Montessori, Waldorf, Christian schools, Mennonites, Seventh-Day Adventists. They all fall under our umbrella, and that is why, I guess, we feel we should first of all study it from this broader point of view. We also feel that if any one would be justified in asking for some money, it would be our association, because we try to represent the whole spectrum of independent schools.

Mr. Haggerty: Just a short question. In your independent schools, how many offshore students are enrolled in your system in the different schools? I come from an area where there is the Niagara Christian College in Fort Erie, which has a number of students from Hong Kong. I do not know what their religious background is, but they seem to have full co-operation with some of the schools over there for secondary school here in Ontario. How many foreign students would there be in your system?

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Mr. McBurney: I do not know the answer to that. There are no purely visa schools in my association. There are some schools which have a certain number of nonresident pupils. I know some of them set a limit on that. They will go no more than 10 per cent or 20 per cent of the student places. I think in some cases they use that as a means to help finance the school because of the difficulties of funding schools privately. I have never studied it. Some boards of education do the same thing.

Mr. Haggerty: The Niagara South Board of Education has a program to bring in foreign students.

Mr. McBurney: They may keep a statistic on that. I do not collect those kinds of statistics.

Mr. Haggerty: No, but there are a number of foreign students enrolled in the public school system.

Mr. McBurney: And also in private schools.

Mr. Haggerty: And private schools. I thought maybe you had the numbers.

Mr. Hordyk: I do not have any numbers. But just to cover our school in Burlington, we, through the church, sponsored people offshore, like the boat people, as you will recall. They were sponsored into the church and also received education at the school. That is why they were in our school, for example. We had maybe 10 out of 250 in our schools at that time for that reason.

Mr. Haggerty: There are some strict guidelines provided through



private legislation in regard to the private or independent schools. I was thinking there is one in your area, Mr. Chairman, that we dealt with in the standing committee on regulations and private bills. The name went back as far as Berlin. That was 1897, I believe, one of the first chartered schools in that area; they gave them a private bill for a private school. I do not know if you are aware of that one or not. Maybe you can give me the name of it.

Mr. Chairman: We have Rockway Mennonite Collegiate. Is that the name?

Mr. Haggerty: No, it was another one.

Mr. Chairman: Maybe. Certainly our town was called Berlin in 1898.

Mr. Haggerty: With the Niagara Christian College, the greatest number of students come from agricultural backgrounds in small communities in Ontario. They are doing an excellent job.

In your final comments, you suggested that at least the grant should follow the student. Am I correct, that this is what you said?

Mr. McBurney: Yes.

Mr. Haggerty: You made a previous poll in that area, polled all members there. Have you conducted a new poll for the new members?

Mr. McBurney: It is not complete. There are a lot of new faces.

Mr. Haggerty: You suggested you are looking for assistance to cover the cost of \$50,000. Have you filed an application with the Ministry of Culture and Communications? You are dealing with multicultural groups in that area, and usually grants are given out for almost anything in that area in regard to education. I wondered if you applied that way.

Mr. McBurney: Not recently. We have done that kind of thing in the past and we always founder over the fact that the policy was no support for private schools. None of the ministries wanted to intrude on either the cabinet or the Ministry of Education.

Mr. Haggerty: I know funding has been provided for certain church groups, a religious body, which said, "We want the early history of our functions or operations here in Canada," and they have received grants to bring forward, say, a 100-year history of the church movement.

Mr. McBurney: I do not care what ministry it comes out of.

Mr. Haggerty: You have not applied to it yet.

Mr. McBurney: You can double the amount and ask us to study some other things, as Mr. Neumann suggested. We will do that, too.

Mr. Chairman: Thank you very much for your presentation. As for your specific request, I obviously cannot make a commitment on behalf of the committee at this time. We have not had any discussion of it this year, but last year there was a general decision made that the committee would not make pinpointed, specific recommendations with regard to spending. I know you would agree with me that this might, if it were to be included in a budget, establish something of a precedent for other groups of a similar nature. On the other hand, it is something we are looking at. Obviously, it has evoked some discussion today. The Treasury is listening to it, too.

I suggest you might want to send a transcript of these proceedings to some of your contacts in the Ministry of Education as well. Thank you again. We appreciate your coming and sharing your concerns with us today.

Mr. McBurney: Thank you for your time.

Mr. Chairman: This concludes our agenda for today. Tomorrow, we will be in room 228, which means, for those who are watching on television, we will not be on television tomorrow. Tomorrow, the select committee on constitutional reform, dealing with the Meech Lake accord, will be telecast.

For those of you who are interested in what we have been doing for the last three and a half hours, this is the standing committee on finance and economic affairs of the Ontario Legislature. It has been considering presentations and briefs to deal with the budget, which the Treasurer hopes to bring down in April of this year.

We advertised and have received these presentations. Later this week, we are going to write a report, hopefully, to the Treasurer as to what we as legislators would like to see in this document. I suppose it is now too late for you, as private citizens, to be involved in this particular process this year but you might want to consider it next year. If you wish to join us tomorrow, we will be in room 228, the Ontario Legislature, Queen's Park, Toronto.

Mr. Neumann: If you are talking about private citizen input, I can perhaps share something with you. On Wednesday or Thursday of last week, I had to leave the meeting for a few minutes to meet a group of senior citizens from Brantford who were touring the Legislature. They asked what I was doing that day and I said I was at these hearings. They said, "Pass on to the committee our input." I asked what it was, and they said they would like taxes to be reduced.

Mr. Chairman: That is the conundrum that we face when we have to write our report, the general feeling that people do not want taxes to go up, that they want the deficit reduced and that they want us to spend more on particular projects.

Mr. Neumann: I explained the dilemma.

Mr. Chairman: Tomorrow, we will be dealing with the Canadian Federation of Independent Business at 10 o'clock; at 11 o'clock, the Board of Trade of Metropolitan Toronto; at two o'clock, BOOST, the Blind Organization of Ontario with Self-Help Tactics; and at three o'clock, the Ontario Trucking Association.

If you have enjoyed the proceedings of the finance committee, I invite you to write or phone one or all of the three House leaders of the three provincial political parties and tell them you have enjoyed these proceedings and would like to hear more from the finance committee.

You can write to the Honourable Sean Conway, Room 193, Legislative Building, Queen's Park, Toronto, M7A 1A1, or telephone him at (416) 965-4961 or call him in Pembroke, (613) 735-6627. You can call or write to David Cooke--that is not myself but the New Democratic Party David Cooke--at Room 211, Legislative Building, Queen's Park, (416) 965-6382, or you can call him in Windsor, (519) 944-4343. Please also write and phone Michael Harris, Room 160, Queen's Park, Toronto, M7A 1A1, or telephone him at (416) 965-5365, or in North Bay, (705) 474-8340.

The committee adjourned at 4:40 p.m.



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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

PREBUDGET CONSULTATION AND TAX REFORM

TUESDAY, FEBRUARY 23, 1988

Morning Sitting





STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)

Haggerty, Ray (Niagara South L)

Kozyra, Taras B. (Port Arthur L)

Mackenzie, Bob (Hamilton East NDP)

McCague, George R. (Simcoe West PC)

Morin-Strom, Karl E. (Sault Ste. Marie NDP)

Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Harris, Michael D. (Nipissing PC) for Mr. McCague

Pollock, Jim (Hastings-Peterborough PC) for Mr. Villeneuve

Polsinelli, Claudio (Yorkview L) for Mr. J. B. Nixon

Clerk: Carrozza, Franco

Staff:

Anderson, Anne, Research Officer, Legislative Research Service

Witnesses:

From the Canadian Federation of Independent Business:

Andrew, Judith, Director of Provincial Affairs, Ontario

Botting, Dale, Executive Director, Provincial Affairs

From the Board of Trade of Metropolitan Toronto:

Hall, Ted, Chairman, Taxation Committee

Beck, Nuala, Member, Economic Policy Committee

Robertson, Ron, Vice-Chairman, Taxation Committee and Chairman, Ad Hoc

Committee on International Banking Centres

Robinson, Ron, Chairman, Education Committee

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday, February 23, 1988

The committee met at 10:07 a.m. in committee room 228.

PREBUDGET CONSULTATION AND TAX REFORM  
(continued)

Mr. Chairman: Why do we not do a little housekeeping? Tomorrow and Thursday we will be under the gun in writing this report. I have suggested to the clerk that maybe it would be wise if we had lunch brought in, at least tomorrow. Is that a difficulty?

Mr. Pelissero: I have a luncheon appointment. You can go ahead without me.

Mr. Chairman: So that is not a good idea?

Mr. Morin-Strom: I do not want to have a session through the noon hour.

Mr. Chairman: All right then, we will not do that. I am not hearing good vibes on that.

Mr. Pelissero: Thursday is a different story.

Mr. Chairman: We will really be under the gun on Thursday. Is Thursday all right to have lunch brought in, if we need it? We will decide tomorrow.

Mr. Neumann: I cannot be here for Thursday lunch.

Mr. Chairman: You cannot be here Thursday for lunch. All right.

Mr. Morin-Strom: I hope we are done.

Mr. Chairman: Yes. Ray McLellan wants us to give him directions on the second report, the economic report. You recall we left that in the air. George McCague had some ideas, so would it be appropriate to have him come in first thing tomorrow morning and get that out of the way?

Mr. Pelissero: Sure.

Mr. Chairman: And hopefully not spend too much time on it.

Mr. Pelissero: Could we maybe start at 9:30?

Mr. Chairman: Do you want to start at 9:30 tomorrow? OK

Mr. Pelissero: Is that all right with you?

Mr. Chairman: Do you want it in camera? I do not think we had decided that. Is that all right with every party, to do our budget writing in camera?

Mr. Morin-Strom: I suppose.

Mr. Chairman: All right. It sounds like the spirit of real co-operation here.

Mr. Morin-Strom: I do not agree with it in principle.

Mr. Chairman: No, I understand that, but when you are under the gun it helps.

Mr. Ferraro: You are supposed to ask that question in camera.

Mr. Chairman: Oh, all right. Let us get down to business.

We have with us the Canadian Federation of Independent Business: Judith Andrew, director of provincial affairs for Ontario, and Dale Botting, executive director. I think many of us know Mrs. Andrew from previous appearances before this committee. She has been a very good advocate of her interest group and we are expecting the same this morning. Mrs. Andrew, perhaps you could lead us through your brief.

#### CANADIAN FEDERATION OF INDEPENDENT BUSINESS

Mrs. Andrew: If it pleases the committee, I would like to read at least segments of our submission into the record. Small businesses are enhancing year by year their central role in the creation of new jobs for a Canadian economy overburdened by high jobless rates. This observation is from The State of Small Business, 1987, and is supported by some concrete facts which you will find in the appendices to our submission.

The Canadian Federation of Independent Business is pleased to present this prebudget submission on behalf of our 38,000 member-independents, who are integral to the dynamism of the Ontario economy. CFIB's membership is quite representative of the business population overall, drawing members from all sectors of the economy.

I would like to speak immediately to the Ontario deficit. The Ontario government must develop and make public a plan for elimination of the annual deficit and for repayment of the accumulated debt. Deficit spending is of major concern to our members, because it increases the insupportable expectations of recipients of government's largess. Quite simply, there is no escaping the fact that public expenditure has to be paid for by taxation sooner or later. Deficit financing is only a handy device for putting off the unwelcome day when taxes have to be increased. It is particularly attractive as a method of funding a rate of public expenditure growth that could not be paralleled by any increase in an economy's taxable capacity.

Expenditure restraint: Deficit reduction must be achieved through meaningful restraint premised on value-for-money analysis of each program.

Projections for Ontario call for slightly moderated economic and job growth and a lowering of the unemployment rate. If these projections are on target for calendar 1988, Ontario will have completed six consecutive years of sustained growth. In our view, this should have allowed more reduction in expenditures than has in fact taken place. However, it is never too late.

Unhappily, testimony given before the standing committee on administration of justice during the estimates of the Ministry of Treasury and Economics revealed that cost cutting is not really taken seriously. Instead of systematically undertaking a cost-benefit analysis of each program, the approach is passive. One official put it succinctly, "Underspending ministries have been asked to look at their budgets, to look at projects and items which they do not have to undertake and will therefore not require funding for and provide direct savings to the expenditure budget."

This spend-it-or-lose-it approach is inadequate and quite unacceptable. Over two thirds of our members recorded their dissatisfaction with progress made by the Ontario government in reducing expenditures in some 10,000 personal interviews to January 1987. Although these results predate the last provincial budget, we believe our members are currently even more disillusioned with Ontario's unrestrained spending and apparent inability to plan for the elimination of the deficit.

An examination of Ontario's expenditure structure seemingly shows just how little flexibility remains. Expenditures on social programs, including health, education and social services, absorb two thirds of the provincial budget. Interest on the province's own-purpose debt of some \$37 billion takes up about 12 per cent of provincial revenues.

Further complicating the problem from Ontario's perspective is the reduced rate of growth since 1982 of federal established program transfers. For 1987-88, the reductions amount to \$812 million. For 1988-89, they are predicted to be \$991 million. We would counter that a similar calculation could be performed to show the continuing effect of several categories of tax increases which augmented Ontario's revenues beginning in 1986. Federal measures buoying Ontario's tax receipts included modified indexing of personal income tax and a broadened base at both the personal and corporate levels of taxation. Ontario has also imposed an increase in the personal income tax rate, a surtax on personal income and various commodity tax increases.

These arguments about what would have been lose their relevance in the context of current budget making. Without question, Ontario has enjoyed significant tax-supported revenue increases in real terms.

A more fruitful approach to the financing problem lies in careful value-for-money auditing, which would direct attention towards ways in which spending can be cut or at least made more productive. The task of expenditure reduction is very difficult and complex, especially in the major cost areas of health, education, social services and municipal financing. Although ultimate control of these budgets lies with the Ontario government, actual spending is determined by day-to-day decisions of the delivery agents.

CFIB is encouraged that the Ontario government has commissioned task force reports in the most intractable spending areas. We are hopeful that the social assistance review will give special attention to our submissions, which outline small businesses' difficulty finding suitable workers and recommended removing obstacles to bridge the transition from social assistance to productive work.

According to the Geneva-based European Management Forum review of 22 Organization for Economic Co-operation and Development countries, Canada leads the world in per capita public expenditures on education. But, ironically, our nation has one of the least literate populations among the OECD nations in the

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tudy. There can be no doubt that much of Ontario's \$4.3-billion expenditure on education can be made more effective.

Similarly, the report of the Ontario Health Review Panel given in June 1987 provided some worthwhile suggestions, noting that well-founded recommendations by several previous review teams have rarely been translated into action. To its credit, the Ontario government has acted quickly on the first panel recommendation, appointing the Premier's Council on Health Strategy in December 1987. This council will operate concurrently to a joint committee of officials of the Ministry of Health and the Ontario Medical Association, announced February 12, 1988.

In addition to identifying the lack of fora to build consensus about the development of our health care system, a 1985 report published by Health and Welfare Canada attributed concern about medical system performance to two additional roots: the separation of the authority to make utilization decisions from financial responsibility of paying for the consequences of such decisions, the result being an incentive structure that neither encourages nor rewards efficient production or utilization of services; and the past overinvestment in the stock of physicians and acute care hospitals.

We would like to believe these new committees are serious efforts aimed at building consensus as to the level of medical services required in Ontario, the most effective way of delivering these services and the appropriate allocation of resources. Quite simply, policymakers have to find ways of doing more with less in this area.

Public sector payrolls: The Ontario government should downsize public sector employment at least to 1986 levels and keep wage and benefit levels consistent with a fair comparison to a range of private sector positions requiring similar background and skills. The policy that the public sector must follow, not lead, the private sector, must be reasserted.

Until recently, the Canadian Federation of Independent Business was encouraged by the slight reductions in the Ontario public service staff strength. A reversal of this trend has occurred, as is demonstrated on page 8 of our submission. The 1986 total staff strength of 81,500 has increased in 1987 to over 86,000 employees.

Compounding this problem, tax data for 1984 show that Ontario provincial employees and other public sectors are more handsomely paid on average than employees of business and business proprietors. This is detailed in appendix F of our submission. Public sector payrolls create difficulties for small business in two key ways: overgenerous remuneration levels produce hiring difficulties and/or payroll cost escalation for more than one quarter of our Ontario members, who mark government salaries and benefits affecting the labour market as a significant problem affecting their businesses.

The second problem is that payrolls represent a major portion of government costs and are therefore important to achieving deficit reduction and to holding the line on taxes. Small businesses are distressed by the basic inequity that those who spend tax revenues, however competently and for the public good, are treated more generously than those employees and employers who produce the revenues. The average gap in earnings levels between the public sector and private firms, especially for small business proprietors, is unjustifiable. If the government is truly concerned about pay equity in the generic sense, then all major areas of public sector, municipal, health and education, must be brought into line.

Business grants and subsidies: Support for small business to correct for the structural problems of financing smaller-scale enterprises should be meted fairly through the tax system or through programs which lever private sector financing and advice. Government should withdraw from providing grants and subsidies to firms of any size.

In our prebudget submission before this committee last year, we refrained from asking for additional programs for business. Our rationale was and continues to be that deficit reduction by expenditure control is far more important to our members than the doubtful incremental impact of administered grants, loans and subsidies.

Our suspicions that administered programs and small business do not mesh very well were confirmed in the response to our April 1987 Ontario provincial survey. Only 29 per cent of the 5,600 respondents reported ever receiving financial assistance under any provincial government support program for business. The 71 per cent not receiving financing detailed their reasons. Twenty-six per cent said too much paperwork and red tape; 22 per cent said their business was not eligible; 19 per cent were completely unaware of the programs; 19 per cent were opposed to government grants. Interestingly, of those receiving funding, over half indicated that the business activity supported by the program would have gone ahead without the government funding.

#### 1020

Government grants to competitors plague about 13 per cent of our Ontario membership. Similarly, government agencies competing directly on a subsidized basis with independent business is a problem for 11 per cent of Canadian Federation of Independent Business member firms. Far from supporting economic activity, grants and subsidies are a disruptive waste of taxpayers' money.

Taxation: Tax rates on small business should continue to be lower than those on larger firms, not as a subsidy but to allow for the retention of earnings to finance growth and to counter the regressive burden of payroll taxes and government regulation on smaller-scale enterprises. The Ontario government must hold the line on corporate and personal tax rates.

The single most critical source of capital for economic development and jobs in Ontario is the earnings that small businesses retain and reinvest in their survival and growth. Excessive taxation draws down the financial resources of a sector that is unfortunately all too frequently undercapitalized from the outset.

CFIB surveys continue to show that total tax burden is the most widely identified barrier to growth. It is well recognized that access by smaller firms to outside equity and debt capital is limited because of the inadequacies of the marketplace in economically screening and servicing small-scale investments and loans. The Ontario government has recognized this structural problem and has taken a legitimate role in providing incentives for risk investment: for example, the new ventures program and the small business development corporation program.

The Ontario government has also recognized the imperative for tax relief to assist with the early-stage and small-scale financing problem. Ontario's small business rate of 10 per cent and its freer income tax exemption for new qualifying small business corporations provide a tax regime similar to that of several other provinces. Alberta's small business rate stands out as being the most favorable.

Workers' compensation payroll tax: Pending an overhaul of the Workers' Compensation Board, Ontario Treasury must take action to support the financial position of the board and to expand the range and distribution of rehabilitation services. CFIB has recently completed a major study of Ontario's WCB system in response to our members' concerns about huge year-over-year increases in assessments. Emerging as the first-ranked problem in Ontario in April 1986, WCB was identified by almost half, 47 per cent of our members, as a significant problem affecting the operation of their businesses.

If the reason for the increases were deteriorating accident performance, then employers would have no cause to complain. Our study finding is that injuries per person-year of covered employment have stayed fairly constant since 1975. Given that the board is lenient about what is considered compensable and that the definition of "compensable injury" continues to be expanded by both the WCB and the Worker's Compensation Appeals Tribunal, one can conclude that on-the-job accident performance has actually improved; certainly the more serious injuries have been reduced. Yet costs have been escalating, in part because the average duration of temporary benefit has increased from 23 workdays to 35 workdays over the 1980-to-1985 period.

Permanent pension awards have increased dramatically, as have all categories of supplements. The WCB's unfunded liability of \$6.2 billion, which averages to over \$20,000 for every single business in this province, is simply too great a load for small business to shoulder. In concrete terms, the assessment rate is about 18 per cent higher today than it would be for a new employer setting up in business if there were no unfunded liability.

Legislators are aware of our views that problems pervade so many aspects of the system that it is impossible to identify one simple solution. This prompted our call for a review of the intent and the financing of the workers' compensation system in order to produce a fair and affordably funded system. Pending an overhaul of the WCB, certain discrete actions can be taken by the Treasury to support the financial position of the board. We recommend the following:

1. The province of Ontario should issue an indexed three per cent bond, with proceeds flowing to the WCB, to improve the current funding level and the prospect of being fully funded by the year 2000.

The statutory requirement for full funding should be replaced by a target assets-to-claims ratio set at a minimum of four to one, representing approximately 60 per cent funding.

Finally, employee contributions at a modest level could be required to cover the portion of the assessment required to amortize the unfunded liability.

It is also obvious to all WCB stakeholders that they would benefit from more effective rehabilitation services. The CFIB would support an initiative to expand the range and distribution of rehabilitation facilities, especially through greater use of community-based services, and we would be pleased to consult further as to how this might best be accomplished.

Municipal property and business tax: Property and business tax places a disproportionate burden on small business. The Ontario government must move to improve tax fairness at the local level. Pending action on several items, relief in the form of tax rebates is vital.



Cost of municipal government: Currently, the third-ranked problem on CFIB's provincial listing, was displaced by WCB in 1986 from its first-ranked position. When CFIB explored the nature of this problem, level of property and business tax was identified as producing the most concern.

Over the last five years, the proportion of municipal financing covered by provincial transfers has dropped slightly, with the difference being made up in property taxes. Mill rate increases during the same period have outpaced the growth in both inflation and incomes.

A municipality's residential mill rate is required by legislation to be 15 per cent lower than its commercial mill rate, which has the effect of lowering the residential tax burden. Consequently, business shoulders 43 per cent of property taxation; in Metro Toronto, the burden is higher at 52 per cent.

Municipal taxation methods are a collection of inefficient and widely varying policies, which produce inequities that are only worsened as taxes increase. There appears to be evidence that there is a pattern to the inconsistencies. Residential property is frequently underassessed relative to commercial and industrial property.

The present property and business tax places a disproportionate burden on small business, which has to be corrected. Property taxes should reflect the cost of municipally-administered services that are property related. Services that are based on human needs, such as education, are best financed according to ability to pay as determined by income taxation. We note that 54 per cent of CFIB members voted for a greater provincial share in financing elementary and secondary education.

Tax incidence has no relation to the level of municipal services required. Businesses use only a fraction of the services used by residential property owners. Consequently, small business owners view the imposition of business tax as unfair and discriminatory.

CFIB recommends that the Ontario government move to: (1) disallow the imposition of business tax; (2) strike the legislative provision which requires a higher mill rate for business; (3) absorb a greater share of education financing; and (4) work with municipal governments to establish fair and consistent assessment methodologies. Pending action on these items, rebates for small business, similar to those granted farmers, would provide vital relief.

Sales tax reform: Sales tax reform must be predicated on effective expenditure reduction. Three design features are vital: a single federal-provincial tax, a uniform base with few exemptions and adequate compensation to vendors for tax collection. CFIB supports in general the first stage of tax reform, covering personal and corporate income taxes. With respect to stage two, sales tax reform, our position is that reform must be predicated on establishing effective and ongoing expenditure reduction initiatives. Failing this, any move would be viewed with suspicion as a revenue-raising effort.

Ontario has an opportunity to build goodwill among the province's smallest retailers prior to moving on sales tax reform. Improving vendor compensation could be done in recognition of the fact that the costs of collection and remission of sales tax are proportionately larger on the micro-firms, owing to their lack of computer and other resources that are applied to this task in larger enterprises.



CFIB recommends that the rate of vendor compensation be increased from four per cent to seven per cent. At this rate, the cap would come into effect at about \$200,000 of sales, rather than at the current \$350,000, and a greater benefit would flow to the smaller-sized businesses.

Economic policy: Small business impact statements setting out the implications for the small business community of new policy, legislation or regulations must be a cornerstone of the policymaking process.

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Government, in its many activities, can have unintended effects on small business. These side effects can impact heavily on small businesses, which do not have the time or the resources to deal effectively with government.

We are encouraged by the proposal contained in The State of Small Business, 1987, which provides for small business impact statements.

Financing of business development: CFIB is supportive of the Ontario government's role in providing incentives for risk investment on a basis which levers private sector financing and advice. We do not favour programs which attempt to have government officials pick winners directly.

The new ventures program, which provides quasi-equity in the form of government loan guarantees on a matched funds basis, has been a tremendous success since its inception in September 1986. CFIB has recommended to other provinces that they emulate the Ontario program.

Small modifications to the small business development corporations program beginning in 1985 may be partly responsible for the reduced activity. Since takeup is low, this is an opportune time to expand to all sectors and to discontinue the practice of arbitrarily excluding certain types of business.

In conclusion, in this prebudget submission, we have stressed and developed a theme of fairness, one that binds its various segments. Basically, this brief asks for fair treatment in all of its dimensions, between each of different classes of taxpayers, between current and future generations of tax payers and between the public and private sectors.

That concludes my opening remarks. Thank you.

Mr. Chairman: Thank you very much. I would describe that as a very tough brief, and it seemed to be very well put together and well researched. Mr. Harris has a question.

Mr. Harris: I do not have difficulty with associating myself with most of your brief and the thrust of your brief. I am not sure I am in the majority, but that is the reality of September 10, I guess.

I have a couple of questions. With respect to the study of the Geneva-based European Management Forum, page 6, "Canada leads the world in per capita public expenditures on education," do you have a copy or a summary of that? We are always inundated at this time of the year with briefs from various of the education communities, be they teachers or school boards or universities or community colleges. They always produce a batch of statistics that we are absolutely the worst in the whole world in the area they are interested in.

Mrs. Andrew: Yes. That particular one should have been referenced; that was an omission. We have the references to an article about the EMF scorecard that was produced in Business Quarterly by Joe D'Cruz, who is a professor at the University of Toronto, and also James Fleck, a professor. I have a copy of this article with me. I can undertake to provide the committee clerk with one.

Mr. Harris: I would be interested in seeing it. You are satisfied that the research is well enough done that it is a credible document?

Mrs. Andrew: Well, they are both professors at the faculty of management studies of the University of Toronto and I presume they have looked at--

Mr. Chairman: We can get the document for you, Mr. Harris.

Mr. Harris: I understand where they come from. I am asking you if you are satisfied, from your view, that it is a credible document.

Mrs. Andrew: We have, of course, not the original research from Geneva but their article on it. I am sure the original could be obtained.

Mr. Harris: OK.

Mrs. Andrew: I am not surprised by the finding and that is why we made reference to it. I am sure the committee would want to pursue it.

Mr. Harris: I want to ask you a little bit about grants and loans and what not to businesses, because I share your concern and have gone on the record expressing concern about the number of loans and grants. Your survey that indicates half of them would have gone ahead anyway supports my gut feeling of projects in my own riding. I suppose I should be fighting for them all to get money, and I do, if the government is going to give it away. None the less, I know or have sensed that perhaps more than half of them would have gone ahead anyway.

The other thing that has concerned me on government grants and loan programs, and I do not know whether you have any statistics or data to back it up, is that the governments, federally and provincially, have been interested in numbers of jobs created. If you have created X amount of jobs, that figure is good when you go into an election. We campaign on that, and that seems to be a measure of how good we are.

I have always suspected that as a result of this, if two companies applied for a grant to do something--for example, company A said, "Here is what we are going to manufacture, and we will use this technology, which will create 50 jobs," versus company B, which applies at the same time and says: "We will use this technology; it will create only 15 jobs and it is much more expensive, so we need a bigger grant"--then the one which is efficient will probably survive in the long run, will be competitive and is using updated technology. But my sense is that government would like the one that creates 50 jobs. It is just a sense I have and, knowing human nature as I do, I suspect there is probably a lot of truth in it. But I do not have any data to confirm that.

Mrs. Andrew: We are aware of some research under way by the Ministry of Industry, Trade and Technology and the Ministry of Treasury and Economics

which is attempting to track who actually gets the benefit of various government programs. I am sure that when that research is brought to light there will be some findings which will support what you are saying.

Our feeling is that most of the grants and subsidies are channelled to the larger firms. Small businesses, for the reasons enumerated there, just do not seem to be able to access them. Quite frankly, they do not want them. Yet their job creation record is exemplary.

If you turn to appendix A of our submission, those are the most recent data available from Statistics Canada. You will see that the smallest firms in this province, the under-five employees, created 43 per cent of the 581,000 jobs in that period, 1978 to 1985. They certainly were not the recipients of funding from the government. All they are asking is that if they have any earnings in the earlier years, they be allowed to keep a portion of them for reinvestment and growth. They are not interested in programs.

Mr. Harris: In general, your association would support cancelling all the grants and loans to business and putting that money into deficit reduction or into other benefits that would generally benefit the whole community?

Mrs. Andrew: In general, yes. We have said that support is best meted out through the tax system on a fair basis so that it is available to everyone. There are some innovative ways of leveraging private sector money and advice. Those include the new ventures programs, which I referred to. That, in effect, works to establish a relationship between a small business and the financing institution. It gives them a basic start when those firms would be starting undercapitalized. My colleague wants to say something here.

Mr. Botting: I am just going to emphasize the concept of leveraging, as opposed to direct government delivery of these things. Rather than having a lineup at some bureaucrat's door, we believe the appropriate linkages should be made at the community level, whether through local credit unions, banks or, for that matter, even in regard to provision of business advice and counselling services in a nonfiscal capacity. Ontario and Canada are lacking in that respect, compared to most other industrialized nations.

We have not dwelt on it, but if one looks at the business in the community program in the United Kingdom, some of the work with community development corporations in the US, even the work in New Zealand and Australia, and certainly in Japan, the use of loan guarantees to a very large degree, developing a whole industry of risk insurance through the private sector, with an extra point or two tacked on interest charges as part of this insurance fee, we know that is effective. It is deinstitutional and it is really creating a business service industry to other businesses, on a user-pay basis for the most part.

Mr. Harris: And staying out of the government guarantees.

Mrs. Andrew: Yes, the guarantees themselves, we believe, should be paid for by the recipient of the guarantee. That is partly what is wrong with the Small Business Loans Act at the federal level.

Mr. Harris: One of the arguments often used is that while Quebec has grant programs, flow-through shares or whatever--and so does Alberta and so does New York--Ontario has at least to compete with other provinces or other states or other countries. I would be interested in your reception across



Canada. I realize you are probably not lobbying too much in the US, but are you making similar briefs to other provinces? I would be interested in the reception and the reaction.

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Mr. Botting: Perhaps I could speak to that because my span of influence covers all of the provinces, working with Judith here in Ontario. Across the country, we are looking at this notion of economic disarmament, if you will, grant and bail-out of disarmament from province to province.

We are working through the federal-provincial office in Ottawa. There is an accord that they are attempting to develop on protective measures regarding procurement that we are hoping to see some success on soon. We have gone into province after province this year with the same message, which is that grants and bail-outs are 19th century thinking. Leveraging existing financial institutions is far more effective. We have stressed the issues of incrementality and uptake, as Judith mentioned.

We have also talked about market distortions. I do not think it is at all insignificant to note that 13 per cent of our members in Ontario recognize the significant problem to their business is government grants to their competitors. What we are dealing with, in many cases--

Mr. Harris: I get that right in my own town. I do not know who is doing the investigations of why this money is required for companies, but--

Mr. Botting: Just to sum up, we are consistent and we are approaching it both at a federal-provincial and federal basis, as well as here in Ontario.

Mrs. Andrew: Considering the item that was in the news about subsidies and the relationship to a trading arrangement, again, it is one more impetus for reducing this kind of support. We make grants and subsidies and bail-outs for firms of all sizes. Even if it is a large and visible entity, we are still of the same position.

Mr. Harris: I cannot hog all the time, but I would be remiss if I did not ask something about the Workers' Compensation Board. Then I will pass, and I am sure others may ask as well.

One thing that has bothered me, and I could never understand, is why WCB pays more to doctors than the Ontario health insurance plan does. Is that still the case?

Mrs. Andrew: Yes, it is.

Mr. Harris: Has anybody ever given you some rationale as to why?

Mrs. Andrew: The rationale is apparently the greater administrative burden and the forms that have to be filled out and the follow-up with the board. That is just the one I have heard. I know the Ontario Medical Association considers it important, because it defended it in a court battle not too long ago.

Mr. Harris: I am sure.



Mrs. Andrew: That is the rationale. In the scheme of WCB spending, medical aid is not a big item. Nevertheless, it does represent some money. You are right.

Mr. Harris: How much is it? I wonder whether we are coming to the stage where it should be pulled out of WCB. In other words, we are now almost at universal free everything in the health care system, whether they are hurt on the job or hurt at home. Has there been any look at whether this portion of the WCB should be considered.

Mrs. Andrew: That is a good suggestion. When we did our--

Mr. Harris: When it was set up, everybody paid his own, so I understand it. But now it is free for everybody anyway.

Mrs. Andrew: You are right. That is a good suggestion. When we did our study, we were focusing on the major spending areas, which tend to be the temporary and permanent benefits and so on, and tried to understand why those were going at such phenomenal rates.

Medical aid is something that could indeed be rationalized and it really does not make very much sense to have two parallel systems of administration for that kind of thing.

Mr. Harris: Then we would not have to fill out all those extra forms, which may save a little money too.

Mrs. Andrew: Yes, that is right.

Mr. Harris: I will pass.

Mr. Chairman: Mr. Botting, do you know of any other provinces that have prebudget hearings such as this?

Mr. Botting: Actually, to my knowledge, Ontario is rather unique in this respect. Of all the provinces I work with, every other prebudget submission is delivered directly to the Minister of Finance and not through a legislative involvement to the degree that this is. We do have that route here, of course. In terms of full involvement of the Legislature like this, I think this is a rather unique forum.

Mr. Chairman: Thank you. I have Mr. Ferraro, Mr. Morin-Strom, Mr. Kozyra, Mr. Neumann, Mr. Pelissero, Mr. Haggerty and Mr. Mackenzie. We have 15 or 20 minutes.

Mr. Ferraro: I will try to be brief, Mr. Chairman. Thank you very much for the presentation and for the summary. It makes it a lot easier for a lot of us who do not necessarily read all the briefs, although I am sure we will all read this one.

I want to answer Mr. Harris's question to some degree. I concur with the vast majority of your recommendations as well, and I think he is probably in a majority, when one considers my party.

Having said that, I want to pick up on what Mr. Harris started talking about, the grants and subsidies, just so I understand it correctly. The Canadian Federation of Independent Business is saying unequivocally, "No

grants or subsidies," and in essence, "Use leverage as a form of business development and job creation." Does that apply irrespective of region in the province?

Mrs. Andrew: That is an interesting question. I think if you read some of the details of our remarks on the small business development corporation, we suspect that part of the reason the SBDC program is stalled is that there has been an attempt to regionalize it. That was the death knell of the Société de développement de l'entreprise du Québec. In Quebec, they attempted to have one Sodeq for each of Quebec's 13 administrative regions. Quite frankly, we believe that money finds its opportunities, and it is not done on a geographic basis.

The leverage argument may fall down if someone wants to promote more activity in the east or the north of the province. We would prefer to see more community-based effort at mustering the community's resources in an effort to revitalize areas that have slow economic growth. I would not say that we would never think that an Ontario Development Corp. loan was appropriate in northern Ontario, for example, but this is our basic philosophy. It is far better to have private sector participants finding the projects that are worth while than to have someone here in Metro deciding what is worth while in northern Ontario.

Mr. Ferraro: I agree with your comments on SBDCs. Even with the little incentive for the northern sector, really it has been a failure, at least in the last year or two, and it is worth looking at.

I guess what I am concerned about is even the leverages or tax credits, if you will. In a way, it is an indirect subsidization by the taxpayers, in this case, of Ontario. So it prompted my question whether this loan subsidy was still the preferred route, especially in regional areas that have more difficulty, as opposed to a direct grant. I am talking now on a regional basis, particularly in the northern region.

Mrs. Andrew: Certainly, tax credits for people to put their money into SBDCs are, as you say, tax expenditures. It is government support and it is in recognition of the fact that these smaller firms are not of a size that could attract venture capital moneys. Those flow only at amounts of \$250,000 or more. It is a structural problem that the government is correcting for.

Yes, there is some government spending involved, but to lever through the tax system is far better than having officials make decisions directly, because you have, at least with the SBDC, a number of people pooling their resources and community-based people making the decisions about who receives the funding. We think that is a far more positive way to go.

Mr. Botting: That ubiquity, I think, is the key difference, rather than the lineup forming in front of the desk, as I said before.

The other thing is, if you look at some of the conflicts we have--for example, small business loans administration--we think the federal program could work but is not doing so because we are mixing objectives there. We are combining loan interest shielding with risk financing. Our members have no objection to another point or two tacked on to those SBLA loans if we can free up the lending formulas in those existing financial institutions.

Mr. Ferraro: That is right, and usually they coincide with hard chattels that they have to use it for.

Mr. Botting: Exactly, the seven-to-one kind of collateral requirements.

Mr. Ferraro: I guess this is the last question, and I will not go through the spiel that committee members have to listen to me give every time I ask people what they would do if they were us. Irrespective of the demands, the deficit, the lack of transfer payments, the decreased real growth in the province with inflation and so forth, is CFIB saying: "No tax increases; cut the deficit and hold the line?"

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Mrs. Andrew: Yes, we are. We are saying that business does not want grants and subsidies and, admittedly, that is a small proportion of the spending. We know the big expending area is in the social services. It absorbs two thirds of the budget, and we believe that there should be careful scrutiny of all of those spending programs to make sure Ontarians are indeed getting value for money.

Mr. Ferraro: Would you even advocate, if need be, a reduction in service?

Mrs. Andrew: That is why we indicated our support for the committees that have been set up recently. If those committees are sufficiently broad-based to build a consensus, say, in health care as to what level of service we want in Ontario and how best to fill that need and how to allocate the resources, then at least we have done it in a deliberate way rather than in piecemeal implements that no one has really looked at with a focus on value for money.

Mr. Botting: I do not think we have to leap right away to the conclusion that it automatically means a reduction in quality of service. We are saying, "Spend smarter, not harder." A lot of that begins first with federal accountability.

Mr. Ferraro: That is what I keep telling my wife.

Mr. Botting: Judith mentioned health care which is, let us face it, 32 per cent of what you are going to spend as a province, or it was last year. Starting with accountability mechanisms, there is probably room for cost saving. People have talked about a smart card, for example, for use of prescription drugs to avoid prescription drug abuse. People have speculated on the use of a kind of Visa sign-off system at the individual patient level so that at the time of every patient-doctor interaction there is a statement there so one knows what that costs at the time of that interaction or even before. Those things do not cut back yet on quality of service. All they begin to do is at least enhance accountability.

Mr. Morin-Strom: I wonder if you could tell us, Mrs. Andrew, if very many of your members are in their businesses totally debt-free?

Mrs. Andrew: We do not really have very much information on that. As you know, it is a confidential matter of a person's own financial arrangements. We have our survey results by sales category. We expect they are not debt-free but we know that the most common source of capital for a new small business is love money, the money they get from friends and family. I do not know whether you classify that as debt or equity. But I cannot give you any exact figures on that.



Mr. Morin-Strom: Is it not a pretty standard practice that most businesses do have debts to banks? In fact, is it not a part of business practice, the borrowing of money in order to invest in their businesses to expand and grow and develop a capital base? Is that not a perfectly legitimate practice for the government in terms of investing in the province?

Mr. Botting: There are a couple of questions in that one response to that one statement. Certainly, debt financing is common--in fact, too common. We have terrible debt-equity ratios, to be quite blunt, in many cases in the business community. We are leveraged too much in terms of debt financing.

When we talk about leveraging, however, things like small business development corporations, or other ways to stimulate equity participation, is exactly what the business community needs. One of the reasons we like the new ventures program is because of the matching equity contribution before you come in to get the loan guaranteed, and we do want equity.

That is another reason we like the SBDC approach, because it enhances that equity component so that they are not leveraged and do not have the debt-equity ratios that we are worried about. All of that is done through private investors investing in small businesses. But as to the government providing incentives to go and stimulate that flow, a lot of it is community development, clearly, all the way, including the pooling of pension funds in a local community or local money investors who come in and invest in their home town. Again, all of that is deinstitutional. It is the community investing in itself.

Mr. Morin-Strom: What I am getting at here partially is the fact that governments, in accumulating deficits, are investing in the future of their provinces or their country. Why do you see the need for the total elimination of the annual deficit and for the repayment of the accumulated debt, which is not a standard practice in the business world?

Mrs. Andrew: When you talk about investment, you mean capital investment in the future rather than spending on current projects. Our view is that most of the deficit relates to spending current consumption, current spending now, that is left to be paid for later.

We are concerned that the debt now absorbs 12 per cent of provincial revenues and actually makes the Treasurer's job much more difficult because his flexibility is constrained. As that debt grows, more and more provincial revenues have to go to servicing it, and there is quite obviously a problem. There is a level at which he will not have any flexibility. We are arguing now that we should turn this trend around and try to get back some of that flexibility, because it is quite a shame that that much money is used just to support the debt.

Mr. Morin-Strom: But is it not the case that if you actually looked at the hard assets of the province--I do not know if you have--that you would find the province does have the assets to back up the debt it has? In fact, that has been assessed by individuals who are experts in the field. Bond raters in New York have assessed the debt carrying capability of this province as either triple-A or double-A-plus, which is a reflection that the province is not in a precarious position in terms of what it--

Mrs. Andrew: The province's debt rating was downgraded at one point. I gather from the recent paper put out by Treasury that it is back up to par.



There is a limit. You are saying there are outside agencies that will tell Ontario when its debt capacity has been reached.

Quite frankly, our businesses in their own structures could not carry this much debt, devoting that much of their revenues to supporting the debt. They do not believe the province should conduct its affairs that way. They see it as immediate spending. Many of the demands, I am sure, which have been asked of the Treasurer for this round of budget making relate to actual immediate spending in this year, not to the creation of capital stock that will serve us into the future. I know some of it is school requests and so on, but not all of it.

Mr. Botting: Our point is this. Sure, there are assets out there and, sure, Ontario has a good credit rating, but we are concerned about a couple of things. One, it is fine to talk about assets. Liquidity of those assets, if you need them on a rainy day, is not quite as simple. We have seen that in a lot of jurisdictions where they thought they had big moneys in heritage funds and other kinds of asset accounts as well.

I have to reinforce what Mrs. Andrew said. We went from nine per cent of total expenditures on debt financing in 1977-78 to almost 12 per cent now. I do not think we want to be complacent about that number. That has a crowding-out effect on health care, education and on a number of other social services which I am sure everybody would want to see funded if we had the resources. But when you continue to get department of the debt growing at the rate we see it growing, to the point--God forbid we ever get to Newfoundland, which is about 25 per cent, or worse yet, Ottawa, which is about 30 per cent. We are dealing then with some real structural handicaps.

That is not fair to the future generation of taxpayers who want money for health care and education, but instead, see this thing sucked up into the department of the debt, nor is it really healthy to the economic sovereignty of Canada. We have such a high preponderance of debt financing reliant on foreign money markets. That, I think, puts us more and more at risk in terms of our own economic sovereignty and our ability to control our own future.

You can talk to the people of Newfoundland about that in terms of the influence of New York state, for example, and the bond markets upon Newfoundland's fiscal decisions. I do not think that is a future any of us wants to see. We are on that road--

Mr. Ferraro: Ontario has no foreign debt.

Mr. Botting: Fortunately, Ontario right now is in good shape. I think 90 per cent in Ontario is borrowed from the Canada pension plan and the teachers' superannuation fund, but again, demographics are not on our side on that. I do not know if we should be complacent about the continued use of that fund for any long period of time.

Mrs. Andrew: What our members are concerned about is that it actually means that taxes will have to be increased in the future to cover what we are doing now, and they would like to see at least accountability for what we are doing now.

Mr. Morin-Strom: In your submission, on page 13, in contrast to the province's total accumulated deficit, which I think is about \$20 billion, you have the rather astounding figure here that the Workers' Compensation Board's unfunded liability is \$6.2 billion, which averages \$20,000 for every single business in the province. You are saying you feel that is simply too big a load for the small business community to absorb. Why have you not been advocating that the business community, which has the responsibility for funding WCB, in fact run a debt-free operation and have the debts of the WCB fully funded?

Mrs. Andrew: We would advocate that if we felt the system was in a position that could be sustained, but what is really wrong with WCB is that it is governed by an old act with various changes that have, in effect, meant that we really do not know what we are insuring. There is not an insurance contract per se set up in the act. It has meant that over the years various administrative changes have meant that the system has expanded year over year. There have also been changes made at the legislative level in terms of indexing and various other changes that one could say were politically inspired without really thinking about how the WCB would function as an insurance company to cover for workplace accidents.

If the WCB was overhauled and it was clear to everyone what exactly it was supposed to cover and what the funding arrangements were, then yes, it should be run on a fully funded basis and employers should pay the cost of their claims on an annual basis. No employer should be able to put off the cost of his or her claims to some future generation of employers. But what we have seen here is really quite a mess. This unfunded liability has accumulated, policy changes have been made without any scrutiny and now there is an unfunded liability that is not the fault of employers and should not have to be shouldered by them entirely.

So we are saying, at least address the unfunded liability. Bring us to the point where the WCB can be sustained by employers from here on in.

Mr. Botting: If I may add, this approach towards helping take this monkey off the back of small business owners, the heavy incidence of dealing with this legacy of the past has been recognized by other jurisdictions. Three provinces, British Columbia, Alberta and Nova Scotia, when they all moved to indexation of WCB premiums, absorbed as part of that process some of the unfunded liability within that indexation process. This province has chosen not to do that. I point in contrast to BC, however, which has zero unfunded liability; in fact, it has a surplus right now.

Again, all we are asking for is to lift a bit of that monkey off our back--perhaps not all--and to recognize that it is unfair to the current generation of employers, or the future generation of entrepreneurs, to have to go and deal with this 20 per cent surcharge right off the top, which is what we now have because of this WCB unfunded liability monster.

Mr. Morin-Strom: I would venture to say that there would be more people in this province who would disagree than agree with your statement about the board's lenience about what is considered compensable. You would get a serious disagreement about that, that in fact the WCB is very restrictive in what it views as compensable and is creating roadblocks time and time again for employees in this province who are unable to collect on legitimate claims. Undoubtedly, there is a very serious disagreement between employers and employees on the operation of the WCB, both being extremely critical of it.

However, someone has to take responsibility for the liability. I have always been under the impression that is the responsibility of the employers and it is one you seem to be advocating at this point.

Mrs. Andrew: The board has changed its definition of compensable injury through the progress of its decisions. It has now reached the point where any incident in the workplace that happens there that has the most tenuous link to the workplace is considered compensable. There are decisions coming out of the appeals tribunal that basically say there does not have to be an incident. It has, in our view, moved towards a universal disability scheme to cover any type of injury for a person who happens to have a job.

These changes have not been made in a deliberate fashion, not by the Legislature and not by the board, but by a process of policy accretion. We think there should be quite a clear definition of what we expect the Workers' Compensation Board to cover, and then fund it appropriately.

When legislators moved to index the system in 1986, that was not contemplated in the initial stages and it was not contemplated in the funding formula, and it has contributed to the escalation of the unfunded liability. If it is done after the fact, then it is really very hard to say that employers should then pick up the cost of a decision that was made by legislators subsequent to the funding arrangement.

Mr. Botting: To use the example in the private sector, it is akin to the banker who continues to change the interest rates several times during the course of what someone thought was a term loan. I do not disagree with your analogy, but I think I can turn it around and show you that if we had the same problem with the banking community that we have with the WCB, there would be a lot of outrage in the streets about banks as well.

The point is that we are funding this thing on the basis of fixed assumptions. The rules keep changing and you end up with this sort of thing, just as a visual. I thought this might come up. What we have here, the top line is the growth and liabilities. The other line is the growth and assets. You can see the divergence and you can particularly see how it has taken off since indexation in about 1985-86. It is a concern.

In terms of the other numbers, growth in terms of claim costs, this curve--I do not know if you can see this one, and this again comes from our study--shows the increasing rate at which the percentage of awards are given for new permanent pensions. Permanent pensions are just that; they are permanent and they are indexed, so they last for a long time. The award rate has gone from about five per cent to nine per cent in the space of about a seven-year period. So these are significant concerns to us and help to explain this kind of picture over here.

Mr. Chairman: Perhaps we could get some copies of those.

Mr. Botting: Sure.

Mr. Chairman: We can run off photostats. This has been a fascinating clash of philosophies, but I am going to have to cut it off and I am not going to be able to recognize all of the questioners. I will take one very quick question from Mr. Kozyra and the rest, I am afraid, we will not be able to recognize.



Mr. Kozyra: I also appreciated the no-nonsense approach of this report, and I have several questions. On page 12, on the corporate tax holiday, an accountant tax specialist did tell me that the way it presently exists, it is only about 10 per cent effective because of the exclusion of relatives. In an attempt to control it, it has made it almost ineffective. I guess you are advocating here opening it up to make it much more beneficial. It would create a great deal of incentive and support to new business so that it would continue and have a much greater success rate. Is that it?

Mrs. Andrew: Yes. We noted in a footnote here that the "related company" definition is a problem and we are receiving complaints. We have made this argument to the Treasurer (Mr. R. F. Nixon) in previous years. It is obviously a balance between screening out the illegitimate use of it and promoting the legitimate use of the tax holiday. We believe it is very important that new businesses be able to retain as much as possible for reinvestment in their firms. Otherwise, they will not be able to grow.

I did not realize that the proportion was as low as that, only 10 per cent. That is a very interesting figure. If that is true, then it is not effective and more should be done to look at those rules that do legitimately try to screen out the people who should not be using it.

Mr. Kozyra: You will be glad to know that I will pass that on to the small business committee of the Ministry of Industry, Trade and Technology. It is looking at it.

Mrs. Andrew: Good.

Mr. Botting: If I may add, one area you might want to look at is the small-scale manufacturers, because with federal tax reform on the corporate income tax side, as you know, small manufacturers do not emerge as winners. In fact, they will be paying more through federal tax reform than prior to it. A couple of other provinces, regardless of new or not, have a zero rate for small manufacturers--Alberta and Saskatchewan, to name two.

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If we are interested in diversification of our economy and improving our trade balances, particularly with small technology firms, where we have about a \$10-billion trade deficit in small technology firms, which I think should bother people, then maybe we want to look at the corporate income tax rate for those small manufacturers.

Mr. Kozyra: You will also be interested to know that the recommendation of community-based rehab centres for the Workers' Compensation Board is one that has been very avidly discussed by the Liberal members and is recommended as well.

Mrs. Andrew: The rehabilitation effort is just vital because we are told now that it takes several months before any intervention is made. That is not fair to the individual and it is not fair to the small employer, particularly the small employer who is desperate to have the employees back. It is a bad situation all round.

Mr. Chairman: I want to thank you very much for your presentation. It has been well received and well listened to. Some members have indicated to you that we have a serious problem balancing your concerns with the many



concerns we have received desiring more money for various sectors. We are going to have to put our minds to that in the next couple of days. Thank you. It has been very helpful to us.

The next group is the Board of Trade of Metropolitan Toronto. The board of trade brief is exhibit 24, and it was distributed to you on February 15. We have extra copies here, if you do not have them with you. Mr. Pollock has some.

The spokespeople for the board of trade are Nuala Beck, Ted Hall, Ron Robinson and Ron Robertson. Perhaps you could lead us through your brief and undertake some questions thereafter.

#### BOARD OF TRADE OF METROPOLITAN TORONTO

Mr. Hall: Thank you, Mr. Chairman. Also, we have with us Nuala Beck, who is the president of Nuala Beck and Associates. She will be dealing with items of economic and fiscal policy in the Canada-United States free trade agreement. Ron Robertson, who is a partner in McCarthy and McCarthy, will be dealing with international banking centres and with taxation issues. I will also be dealing with some of the taxation issues. Ron Robinson will be dealing with the education policy. I will ask Nuala Beck to begin with our comments on economic and fiscal policy.

Ms. Beck: Thank you very much. On behalf of the board, it is a tremendous pleasure to be here and to discuss matters of economic and fiscal policy with you today. The principal concern of the board of trade is that despite very large increases in provincial taxation and against a backdrop of a very strong--exceptionally strong, in fact--provincial economy, both the debt and the deficit have continued to grow quite significantly. Against the backdrop where we have had very large tax increases and an environment that has allowed for those tax increases to go through, principally on the personal taxation side, with revenues going up 59.3 per cent, and against a backdrop also where corporate tax revenues have grown by 67 per cent, as I said, both the deficit and the level of debt in the province have continued to grow. That is principally our concern today.

We think it very important for the province to take a look at what the future may hold and how easy it may be to maintain that kind of environment into the future. That is where the board has two principal concerns. If you look at the two main catalysts to growth in the provincial economy in recent years, you very quickly see that the two principal catalysts have been, first, the astounding growth in the financial services economy and, second, a tremendous environment for manufacturing. Both of those have created a window of opportunity, but we think it would not be prudent to count on continuing or extrapolating on into the future.

If you look very carefully at the financial services economy, what you begin to see is that an era of financial inflation has quickly begun to give way to an era of financial disinflation whereby the tremendous deregulation that we have seen globally in that industry, and also the tremendous returns that the industry has been capable of generating, have now begun to shift and change. We are suggesting that as a catalyst to growth in the province, it may not be feasible to count on that sector providing the demand, the employment opportunity and the basis for revenue growth that it has in the last two years.

If you take a look at the manufacturing sector of the province, what you see is that it has also been a major beneficiary of a lot of global things

going on, not the least of which has been, at the global level, a very powerful shift from an inflation-driven economy which provided a basis for resource growth and development, to a lower inflation, almost a disinflation environment which has provided the basis for a very powerful growth in manufacturing. Of course, Ontario has, thank heavens, been a major beneficiary of that.

However, if you examine manufacturing both domestically and, I think, in its rightful global context, you begin to see there are a number of changes occurring, not the least of which is the intensely competitive position that is building up, not just in North America but elsewhere as well.

One of the things we can see on an almost daily basis is foreign competition moving into North America. It is hard to pick up a newspaper and not read about yet another foreign company which is moving to establish state-of-the-art production facilities in North America. We are very concerned that will certainly give Ontario and its manufacturers a certain run for their money. We do not think it is going to be as easy to achieve the levels of growth in manufacturing in the next two or three years as it certainly has been in the last two or three years.

It is with those two particular points in mind that we strenuously urge the provincial government to take a hard look at spending and to begin to reduce that through this window of opportunity, instead of waiting until the economy softens, perhaps more so than it will in 1988, and denies that easier environment to restrain spending and to do what has to be done. I would certainly be glad to answer any questions you have on those points.

Turning our attention to the issue of free trade, there has been a great deal of debate and study that has gone on on the issue of free trade, both for and against. However, we would like to add to that public debate one very important extra dimension that we think is of very great importance to the province, and that is the context in which manufacturing is increasingly finding itself on a global scale.

I mentioned earlier that one of the things we can observe is the tremendous rise in direct investment in North America. In the United States alone last year, it exceeded \$209 billion, and that is largely a function of protectionism, where foreign companies are very reluctant to give up their US market share and instead are moving to produce in North America what they had been exporting to North America.

In the context of a free trade agreement, that trend takes on importance for Ontario because in the absence of a free trade agreement, Ontario, for sure, would be simply a bit player in that trend and would attract very little in the way of that foreign direct investment and, along with that, the kinds of jobs and demand and multipliers that would be of great benefit to the province. However, with the free trade agreement, there is every likelihood, every reason to believe, that Ontario would stand exceptionally well positioned as a access point into the US market. Without assured market access, that simply is not likely to happen.

We do urge the government to support the free trade issue, not just in terms of what it means in a Canada-US context, but more important and increasingly important, in so far as what that means in a global context, where it is no longer simply domestic competitive position or even North American competitive position that is becoming increasingly key, but rather

much more on a global scale. Ontario and its manufacturers must really be positioned to be competitive in that larger context. The free trade agreement would add measurably to the province's ability not simply to attract world-class corporations and the employment that generates but also to enhance the tax base for the future.

Mr. Hall: Mr. Robertson will now talk about international banking centres.

Mr. Robertson: We have distributed to you a copy of the actual legislation in force. A lot of talk has been heard about this, and I thought you might want to see the actual legislation. It is there. It has been described very recently by one banker as absurd, and I am afraid we agree with that.

What we are here for is to encourage this committee to encourage the government to take such steps as can be taken to even up the playing field for Ontario with this legislation. Note carefully that we are not suggesting that Ontario try to do anything that adds an incentive to make the water flow downhill to Ontario as far as international banking centres are concerned but that it try to compensate for it so we have an evening up.

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It is really with the greatest regret that we come here suggesting that that be done, because we think this is a very bad policy that the feds have, but with all the representations that both this body and the Legislature, the city, Metro, the business community and many others have made, the pleas seem to fall on deaf ears. We recognize as well how difficult it is for Ontario to do something of that nature because it means giving up provincial tax and, in addition, it would mean compensating for the federal tax that would be paid in order to even up the score. This is very technically difficult too, but we think there has to be some signal sent that this is not an acceptable type of tax policy for the use of the federal income tax system.

Some of you may still harbour the idea that it has got some regional incentive attributes. I point out to you that it is the only type of regional so-called incentive--and we do not think it is appropriate to call it that--that leaves the position of preference for ever, whereas the others have always been sort of a lower startup cost idea by faster write-offs, investment tax credits and so on. This is to be a somewhat permanent fixture.

This organization and, I am sure, the banking community--and there are not just banks involved here, I know--would like to work something out to hold the business here. I have no idea what that ship will or may be. We are almost certain that if nothing is done, they will find that the present legislation--federally, that is--does not work very well, and they will be back very quickly for broader federal legislation. Both Quebec and British Columbia have legislation in place and in force that is much, much broader than the federal legislation is to cover securities and other items, foreign exchange.

When you get into such items as foreign exchange, where most of it, or a great deal of it, is now done in the Toronto Metropolitan area, if they expand into that, then you will see shifts. I do not think we can fairly say with the way it is restricted now that there will be much of a shift if it is kept that way. But, you know, I guess it is like a camel with its head or whatever into the tent, and I think Ontario has to say, "No, this is not the type of legislation we expect of a federal government in a federal system."



I have to move on to taxation policy. The first item we have on page 9 of our brief is a general comment about the federal tax reform. We are telling you to get down deficits and we are asking you to lower taxes, which have been too high. We know that is a mix, but I guess the art of government is to get the right mix. We note there that we would want to recommend that Ontario bring down the combined corporate tax rate here.

At the moment, as you probably know, for 1988, given the federal tax reform, the top Ontario federal rate will be something in the order of 44.3 per cent. That is excluding deductions for manufacturing and processing, which bring it down by about six points now and will be phased in a little more deeply over five years. All the federal tax reform proposals and examples assume a combined rate of about 40 per cent, federal and provincial.

I thought it might interest you just to hear a few of our competitive numbers that I dug up here. New York state will have a combined rate in 1988, which is 34 per cent federal, plus its state rate, of about 40.6 per cent.

Mr. Hall: It adds up to 40.6, not plus 40.6 per cent.

Mr. Robertson: No. The total combined rate is 40.6 per cent, not in addition to 34 per cent, of course. In Michigan, it will be 35.5 per cent. It has a VAT, a value added tax, as well. I will only mention those two. Well, Illinois is 36.6 per cent. I think those are numbers that impress people when they are going to be making a decision to move, with or without the federal trade initiative in the free trade area. When you make a decision as to where you are going to locate a business and you can do it on either side of the border, that rate is going to figure very strongly in your consideration.

We note under the federal tax reform that the capital cost allowance rate is to be reduced for machinery and equipment from 50 per cent to 25 per cent. This represents a significant increase in tax for manufacturers, which of course is a terribly important sector for Ontario. It is only partially offset by the lowering of the manufacturing and processing corporate rate, which is a five-year matter of phasing in. It has been estimated that the present value after tax costs of machinery and equipment for a corporate manufacturer in Ontario will increase by more than 20 per cent if the federal reform proposals are accepted across the board by the province.

We were encouraged in the Treasurer's statement on December 17 that he has a firm eye on modification of depreciation rates because of this change. What we are really recommending with respect to federal tax reform is a careful review piece by piece. We would like, in the cause of uniformity, to say go for the whole thing, but I think we have to recognize that there are going to be areas where Ontario has to look after itself. I think we are saying this more loudly now, having seen the international banking centres, where this sort of uniformity is thrown out the window for other reasons.

I should stop now and let my colleague carry on.

Mr. Hall: One of the areas we would like to point out is the effect of the federal measures on the real estate industry. I think it is recognized that Ontario wants to do something in the area of low-cost, affordable, low-income housing. We feel that the impact of these federal tax reform measures on the real estate industry is going to be very hard. Specifically, it is reducing their capital cost allowance in the long run from five per cent to four per cent. It is establishing a put-in-use rule, which means they will not be able to start claiming capital cost allowances soon.



All this has an impact on their financing costs, the amount they have to finance up front. What it simply means is that they are going to be less interested in developing in Canada. Specifically, the projects that will go first are any in the area of affordable or low-income housing. We urge the Ontario people to take a hard look at the proposals for the real estate industry and realize the impact it will have on future housing in the province.

Going on to the federal-provincial collection agreement, right now Ontario does not collect its own personal tax. It collects its own corporate tax. We note that it is considering going back into the federal-provincial collection agreement for corporate tax. We urge you to do this as something for all taxpayers. It means one less level of administration, one less level of tax assessors to have to deal with. We urge you to get on with this and get into the agreement, bearing in mind also that we did ask you to consider that you may not want to adopt the federal base 100 per cent.

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This leads us to the issue of capital tax, which would be difficult under the federal-provincial collection agreement. The federal government does not have a general capital tax. We feel that if you are really going to get rid of one level of administration, it has to be by getting rid of the capital tax as well. If it is not possible to get rid of the capital tax completely at this time, we ask that you consider making it creditable against income tax.

One of the reasons for capital tax right now is to collect something from the corporate taxpayer when they are in a tax-loss position, but we are saying perhaps it is time to consider that a corporation that is running a tax loss really cannot afford more taxes. Consideration should be given to, if not eliminating it, at least making it creditable against income tax. We point out that the federal government has done that with its capital tax on financial institutions.

This is a fairly small point in the Ontario capital tax system whereby, under the present rules, a corporation gets a deduction from its capital tax base for investments. However, in order to qualify, you have to meet two conditions. The investment has to be for a term of at least 120 days and it has to be on the books for at least 120 days at the year end. We feel the second rule is manifestly unfair.

If you look at the mirror image of that, one corporation has an investment and another corporation has part of its capital. It does not matter how long that investment the other company made is on your books; if it is part of your capital, it is taxable capital. It is an allowable deduction only if it meets the criteria of both being for a term of 120 days and being on the books for 120 days at the year end. We have asked this before and we would ask that you give consideration to some equity in that rule.

Now Ron is going to talk about the tax holiday.

Mr. Robertson: I heard the preceding people. Their submissions went into this matter of the Ontario tax holiday legislation fairly carefully. I will take only a second.

We think if it is going to remain, it should be rationalized and made to apply to what it is sold as applying to. You have heard examples, I am sure, of the related-company concept. I guess you really do not want somebody multiplying the exemption, but on the other hand, you have to have it. If I

start up a new business, which is what it is for, I should get the benefit if anybody does. There are a lot of anomalies in it. Rather than bore you with them, we will just say that it is essential for the credibility of the tax system, as well as fairness and equity, that it be reviewed and straightened out.

The next item upon which I have been asked to just comment briefly is research and development. I do not think any province in Canada has more at stake in having R and D carried out than Ontario. Unfortunately, the way our provincial system works, it appears that Ontario does not offer a tax incentive for R and D and apparently it erodes the value of the federal incentives by requiring them to be included in income for corporate tax purposes.

We think it is important that that point be straightened out and we think Ontario should develop some sort of tax incentive to promote R and D in the province. At the minimum, they should exclude federal incentives from the provincial income tax base so that at least they will not be cutting down on what those in Ontario are already getting.

The next item has to do with a long-standing pain in the neck in the Ontario corporate tax, and that is a chintzy little way of grabbing money that you cannot get legitimately because you are not entitled to tax nonresidents. The way it has been done is to disallow payments of royalties and rents to non-arm's-length nonresidents, irrespective of whether that amount is properly deductible or not, and as you know, there are all sorts of tests that they have to be arm's-length prices.

This fight goes a long way back to Ontario trying to get a piece of the withholding tax, which is the federal jurisdiction, and this is the way it did it. We think it just makes Ontario look a bit dumb in this whole thing. It is a real annoyance, and costly to interrelated situations, and can compound in the fact that you will not get as many non-arm's-length licensees putting licences for various things into Ontario.

It goes back to a little fight that I think perhaps some of the bureaucrats know more about than the tax policymakers. I have been involved in briefs for the bar and so on and we have been talking about this for a long time. Maybe some day somebody will listen to us. We think it is appropriate that it be removed.

Mr. Hall: Dealing with the Ontario Mining Tax Act and regulations, we want to commend Ontario for its consultative process which led to amendments to the Mining Tax Act, but we would like to point out at this time that we are still waiting for the regulations to come out. This is important to mining companies, because they have to make a final instalment of their 1987 taxes by the end of this month and they do not have the regulations that enable them to determine how much they have to pay. In all fairness, they should have those regulations in their hands as soon as possible.

We have another old chestnut, the Municipal Interest and Discount Rates Act. Some years ago, the act was amended to allow municipalities to pay interest on refunds of realty and business tax that were a result of court decisions or Ontario Municipal Board decisions.

That is a very good move, but it was left optional for each municipality and very few municipalities have introduced any sort of a fair payment

schedule. Instead of going back to when the money was paid by the taxpayer and giving interest from that day on, they basically are giving interest only from the date of the court decision that requires them to make the refund.

We would point out that in Quebec, for example, the legislation is compulsory that all municipalities have to pay interest on refunds at the same rate as they charge on short-paid taxes. We urge the government to make this compulsory for municipalities.

Mr. Robertson: This is the last item under tax. It is small business development corporations, and the board simply wishes to signify its support for this legislation. The experience among our members who have dealt with it is that it has been appropriately refined and is quite well targeted. I do not know, and none of our members of the tax committee was aware, of its having been abused. We point out that this is one thing which is working and we recommend the continuation of this legislation and provision of additional funds to the extent that is possible.

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Mr. Hall: I would like to ask Mr. Robinson to deal with matters of education policy.

Mr. Robinson: We have two issues we would like to bring to your attention at this time. The first has to do with education and international trade. We have heard about the economic situation in Ontario and we have seen projections about how important international trade is going to be in the years ahead. We are anxious that the education system should respond to this opportunity and respond quickly.

We have noted with approval that the Ministry of Colleges and Universities has called for proposals for a centre for international business and we support that initiative. We want to draw attention to the importance of international business at the secondary level as well. We believe that work is required on an urgent basis, in terms of both guidance materials and curriculum materials at the secondary schools.

With respect to apprenticeship, the second point we would like to bring to your attention is that apprenticeship is extremely important in providing a supply of qualified journeymen for Ontario businesses. Many of the apprenticeable trades are in short supply in the economy and the journeymen are the life's blood of Ontario's industrial sector.

Recognizing that the structure of apprenticeship is under review between the federal and provincial governments as we talk, there are three points we would like to bring to your attention at this time. First, the board advocates that apprentices should be classified as students, not employees. Apprentices suffer from early layoffs and they from their current employment status as employees and not students. We think that if this is changed, significant benefits will accrue to the apprenticeship program.

Second, under apprenticeship, the current administration seems to us to be unduly rigid. We would strongly support the use of alternative delivery systems, particularly ones such as day release rather than requiring six-week release from the job in order to have the in-classroom component of apprenticeship training.



Finally, we would like to bring to your attention the fact that industry has been shown to bear a very major share of the cost of apprenticeship training. A recent study shows that after crediting industry for the value of productive work done by apprentices, industry nevertheless still bears 90 per cent of the total cost of training, netting out the benefits of production.

If government wishes to encourage growth in apprenticeship, it should certainly re-examine the allocation of costs in apprenticeship training. The federal and provincial government contribution to the cost of training combined is only 10 per cent of the total cost of training.

Mr. Hall: This concludes our brief.

Mr. Chairman: It has been a very thorough pot-pourri of information. It is going to be very helpful to us. We appreciate it very much. Obviously, a lot of work was done on it.

Mr. Pelissero: Just to reinforce the chairman's comments, it certainly will be useful, providing a lot of information and suggestions in terms of where we should be going and how we should be getting there. That is very useful in our deliberations.

Without wanting to reopen our free trade hearings again, I am interested in a couple of statements you made with respect to the free trade agreement attracting industries and that you feel the agreement has given us assured market access. Would you expand on both of those statements, please?

Ms. Beck: Certainly. What is really going on out there is a pretty powerful transformation of global capital flows, from a world where it has been portfolio flows, stock-bond money and that kind of stuff going around the world into direct investment. It is particularly important that not just whole countries but also areas of a country, such as Ontario, be seen to be attractive places to invest and therefore can attract this money that is on the loose and available for investment purposes.

With respect to market access, one of the things that we certainly see a great deal of is that when companies go to position themselves into, let us say, a decision between Ontario and the United States, having market access or the perception of market access is a critical factor in their investment decision. What simply is not going to happen is that companies position in one location only to find that they are 55 kilometres the wrong side of a border, and protectionism has sprung up in the United States, the way in fact they perceive it is on the rise.

There has been a great deal of protectionist threat that has been building internationally from the United States with many trading partners--Japan and Germany certainly know a great deal about that--and there is a strong sense internationally that without a free trade agreement, Canada could be treated increasingly on the same basis as other trading partners have been treated and subject increasingly to the same kind of protectionist threat that many other countries are living with and, unfortunately, are having to deal with on a day-to-day basis.

Mr. Pelissero: Would you identify the automobile industry or the automobile-related industries as industries that would be attracted to Ontario because of the free trade agreement?



Ms. Beck: Well, what we have seen to date is certainly some foreign direct investment moving into the auto industry because of the auto pact and the market access that is provided through the auto pact to the US. It is very important that when foreign companies make those decisions, those long-range and very expensive commitments, they not sense that protectionism can shut down the border, and anything that can be done--certainly the free trade agreement is being perceived internationally as a very, very important step in that direction--is what we would urge you consider.

Mr. Pelissero: Again, I do not want to open up the free trade discussions again, but it is important for me. I agree in terms of long-term investments because--

Ms. Beck: Absolutely.

Mr. Pelissero: --certainly the auto manufacturers that are here now are not going to close up shop overnight; they have some capital invested in some of the plants. But from a long-term decision-making point of view, the change in the auto pact status to North American content, if you start looking at some of the other, I guess, check marks that an industry puts beside, do you locate in Ontario, do you locate in the United States vis-à-vis health, welfare, labour rates, etc., the information we have been given to date has been that, in fact, a free trade agreement will not attract industry to Ontario. In fact, it will be the exact opposite, in that it will be somewhat of a disincentive. Because of the free trade agreement, there is no longer the perceived or real access for those companies to locate in Ontario.

If I am out to lunch on that, I am interested in receiving as much information as I can to correct that wrong perception that I have or that, by and large, the bulk of the population has as well.

If you could be more specific as to which industries, because of this free trade agreement, have assured market access or are free from United States protectionistic legislation, I would be interested in that as well.

Ms. Beck: First of all, I certainly am not suggesting that the free trade agreement will give 100 per cent assurance, guaranteed for all eternity, from protectionistic threats from the United States. However, what it is perceived to be doing internationally is reducing the protectionist pressures that are likely to build further in the United States.

We are not suggesting that it is going to solve every problem for all eternity. However, when you look at what is going on globally out there, what you see first off is that the value of market share has risen. In a world where market share is not easy to come by, there are very few companies that are willing to run the risk of losing that to whatever threat may be present, either now or in the future.

That is where the free trade agreement, we think, is very, very important. If you look at foreign direct investment, a little over \$209 billion of it went into the United States last year alone, and that is coming from places like Japan, Korea, Germany, France, Switzerland, the UK. It is very widespread and it all has to do with two basic drivers. The first is fear of protectionism, where these very large exporters to North America--and let us face it, it has principally been exports into the United States--are very, very mindful of any kind of protectionism that could build up that would deny them of that market share in a world where market share is not easy to come

by. So the first driving point to it is locking in the market access or the market shares that they have built up so steadily through time.

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The second factor is the assurance, or some relative assurance, in making major capital commitments. It is not cheap, either, to build these kinds of world-scale plant facilities or to buy and modernize them up to world-scale capabilities. It is very important for these companies to perceive that there are some rules of the game; that, in other words, they will not wake up on any given Tuesday and find that there has been an action by the United States that does not just hit out at potash but hits out at some other area and so on and so forth. The free trade agreement is being perceived internationally as being absolutely a critical element in reducing the level of uncertainty: not necessarily doing away with uncertainty completely--that is not realistically possible--but in reducing the level of uncertainty.

Mr. Pelissero: Would you comment on what would happen in your mind if we had a 90 or 95 cent Canadian versus American dollar and what our competitive advantage would be or not be because of that, because of the exchange rate?

Ms. Beck: Well, there is actually a great deal of debate currently--in fact, almost daily, every time the Canadian dollar goes up. People, in fact, corporations, are reassessing their position. Certainly in the studies we have done and our own sense is that the higher the Canadian dollar goes, the less competitive we are to become. But I think there is a very wide range of variance, certainly in the work we have done, between industries and in fact between companies. Some companies have a great deal of flexibility and do not mind at all examining very closely their cost structures and reducing their cost structure to remain competitive. Other companies, regrettably, and in fact some industries, are less inclined to be as flexible and to do what they have to do to stay competitive in the real world.

Mr. Pelissero: Thank you.

Mr. Chairman: Mr. Morin-Strom and Mr. Harris, Mr. Neumann has to be somewhere else at noon sharp and did not get a question in to the last witness. Is it all right if I let him go ahead? Mr. Neumann, quickly.

Mr. Neumann: Very quickly, I will limit it to just one question. On the issue of apprenticeships, I found your figures quite interesting that 90 per cent of the cost is borne by the industry. Certainly the industry does benefit from the apprenticeships, but as I understand it, talking to manufacturers and people who take apprenticeships, the big problem is that the industry that helps to train the apprentice does not always hold that apprentice and may not benefit from the talent it has created. Has your association given any thought to how to structure a system where perhaps the industries who are involved in providing, contributing to the cost are more likely to benefit from it?

Mr. Robinson: There are a number of alternative ways of doing that, and we have not examined them in detail because, as far as we are aware, they are not under active policy consideration in Ontario. Our major concern is that the employers, particularly the employers working with those trades that are in such short supply, have very major costs today to train apprentices and

to produce a journeyman. Whether that cost could be borne more broadly throughout that industry sector is quite another question, and a question which has been debated at large in other jurisdictions and occasionally in this jurisdiction.

Certainly some implicit tax or fee paid if an employer is not training is a model that is used in some jurisdictions. We have not looked at that, particularly because that has not seemed to us to be something on which we should focus. We are simply pointing out here that the given employer is bearing a very major share of apprenticeship training, and bear in mind that these are the occupations that are in most critical shortage in Ontario's economy. We are talking about tool and die makers, carpenters, auto mechanics, people in trades in which there are congenital shortages.

So to increase the supply, I think the government should be very wary of putting additional pressure and of some of the moves from the federal government which may bring additional cost pressure to bear on employers. We are already bearing 90 per cent of the cost, and the provincial share is something less than half of the remaining 10 per cent.

Mr. Neumann: One quick question of omission on the international trade initiative for training people for international trade. You mentioned universities, you mentioned secondary schools and you left out community colleges. Any particular reason?

Mr. Robinson: No. It could well be an error of omission. The particular focus we have is at the secondary level. We know that programs have been mounted in colleges and we are aware that at the secondary level there is a dearth of curriculum attention to international trade and there is very little attention in a counselling sense to the careers that could be open to students at the secondary level. It is at the secondary level that people are making those kinds of choices whether they will go to a college, and if they go to a college, whether they go to business, and if they go to business, whether they go to international trade.

I think the colleges are relatively better off in terms of their coverage of courses than are universities or secondary schools, so that if there is attention and new work to be done, priority work to be done, it is at the undergraduate and graduate level of universities, and it is at the curriculum and guidance areas of secondary schools.

Mr. Morin-Strom: I appreciate the presentation that has been made, particularly the attention placed on taxation, which is something we have not heard in nearly as much depth as you presented from other business groups particularly, which have focused more on the need for deficit reduction and expenditure control than on a taxation policy.

Within taxation policy, let us just talk about the business sector, leaving out the dispute about whether the burden of taxes is unfairly distributed on to individuals as opposed to businesses, but within the business sector, one of the concerns that has been raised in recent years is that the effective tax rates for small businesses are much higher than they are for large corporations in the corporate sector. We have not seen those figures. I wonder if you could provide us any figures and whether you think, in fact, our tax system has some systematic biases in it and, in particular, whether it is biased in favour of large corporations and against smaller businesses.



Mr. Hall: Tax rates for small businesses are lower than they are for large businesses, so to that degree there is a bias in favour of small businesses. What is often said is that we have corporations that do not pay any corporate tax in a particular year, and this gives them a lower effective tax rate. But I think one has to take a long look at that. My own company, Hudson's Bay Co., for example, is not paying any cash income taxes right now, as a result of losses which were accumulated in the years 1981 and onward, when the economy was down and retailers were not doing very well.

If you chose to look at Hudson's Bay's financial statements, you might say they are not paying any taxes, but I think it should be appreciated that that is just in respect of, say, one year. If you look at a period of 10 years, you would find that over that 10-year period there would be profits and there would be losses, and the Hudson's Bay company, or any other company, would be paying corporate taxes on the net of those losses and profits over that 10-year period. I do not think taking the effective tax rate in any one particular year is really very fair to the whole situation.

Mr. Morin-Strom: That is not my understanding of the situation. I thought that the effective tax rate over all businesses, not selecting one business or one particular year, in fact was quite a bit lower for large corporations compared to the small businesses.

Mr. Robertson: We have not seen those figures. I would doubt them, other than in the context of what Ted has said, together with the fact that there may be, if I understand, a lot more small businesses in the service sector, compared with the larger companies which tend to be in manufacturing, which would get a lower rate, and there could be biases there. Apart from those, given the rate structure, I do not know how they get to those figures other than through year-to-year variations in losses and write-offs. There is nothing in the system that should produce that result that I am aware of.

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Mr. Morin-Strom: In terms of tax rate differences between Canada and the United States, you have stated that you thought our tax rates have to be brought down to be more competitive with the United States. Is it also imperative, as we go into, potentially, a free trade arrangement, that our whole tax structure for businesses be brought as close as possible to the Americans?

Mr. Hall: I think it is fair to say that one of the items in the determination of where a business will be located is certainly going to be the return after tax. If one gets into a free or freer trade situation where there is a choice between one side of the border and the other, then certainly it is one of the factors being used in a feasibility study to determine where a plant location or a service location should be.

Ms. Beck: I think that is very much the case in point. There are many factors that go into the decision of where to put the plant. From all the work that we have seen and done ourselves in that area, tax rates are certainly one awfully important factor.

Mr. Robertson: Usually, the investing company has a target of having taxes, wherever it goes, no higher than it is paying on its home turf. That is sort of a benchmark they use. If you have an American investor in Canada, he is going to be looking at what he gets back on top of whatever the combined



rate is. Of course, you have the withholding tax that adds up to that as well. I have gone through this exercise with many companies, and that is it. They look at their home base and they try to get it down to that level. That seems to be the obvious way to do it. It is one of the factors.

Mr. Morin-Strom: Related to that, one of the principles that appears to be a fundamental injustice in our system is the fact that many profitable corporations pay no taxes. They may pay taxes, but no taxes over quite a period of time.

I understand the United States does have a minimum tax on corporations. Do you think we in Ontario should start a minimum tax on corporations to ensure that all corporations that are profitable do pay some taxes to the province?

Mr. Hall: One of the problems right now in taxation is its horrifying complexity. The federal notice of ways and means motion of December 16, 1987, was a supreme example. It brought in two more horribly complex measures, one of which defies comprehension both by the taxpayer and the tax collector. Our feeling on an alternative minimum corporate tax is it would add another complexity. We feel that some of the other base-broadening measures, some of the reductions of some of the incentives, are much more effective ways of doing something towards this perceived nonpayment of tax.

Once again, I will say that a lot of this perceived nonpayment is simply a corporation using tax losses which it has accumulated in prior years, and so it is not fair to measure it just over the one year and say it is not paying taxes.

It is the same thing with capital cost allowances. When you purchase an asset, and you are entitled to claim capital cost allowance on it over the life of the asset, you are entitled to claim 100 per cent of the cost. What is important is that in the earlier years you get more and in the later years you get less compared to however you are writing off this asset in your own books. There is an advantage and you get a bit of a better cash flow if you claim more capital cost allowance in earlier years, but over the life of the asset you do not get an advantage in terms of any more of a write-off, you still get the 100 per cent cost.

Mr. Robertson: May I add that I think there are a great number of myths floating around about nonpayment of corporate tax and other tax? I keep looking for all these ways of achieving that result, and the only ones that seem to keep coming up is that they have lost money or that they have gone out and done what the system has asked them to do, namely, to invest money and to take a faster write-off. But when you ask people to isolate or give you examples of the companies that do not do it, you find a lot of these myths start to fade away.

Incidentally, sir, we do have, if you like, the minimum corporate tax in Ontario, the one my colleague referred to, the so-called paid-up capital tax. It is a tax on the right-hand side of the balance sheet. It is there whether you make a dime or not. It has nothing to do with having earned anything or ability to pay, and it has been there for a long time.

Perhaps you may look back at some of these assertions. It is easier to respond to them if you give us an example of what you do not think is appropriate.

Mr. Morin-Strom: I think I can give you a fairly easy example of a major corporation I know quite well that went for a period of now about 18 years, but a straight period of about 12 years, where it made profits every year and never paid a penny of income taxes.

By an accumulation of an investment with accumulating capital cost allowance and investment tax credits, as long as you are investing back more than the profits you are making and accumulating the write-offs, you can continue to build up your asset base without having to pay income taxes.

Mr. Robertson: I thought it might have been a given that you should be able to write off, before you pay tax, what it cost you to earn the money. When you apply that principle, it means they have been making continuous investments. Maybe you do not want them to make continuous investments, I do not know, but it is that effect that produces that result. Unless you say that you cannot or you should not write off what it cost you to earn the income--you may argue about the speed of it, that is where the incentive comes in, but I do not know. We have heard from Sweden in the past, where you could write off 100 per cent in a year. We can argue all day as to what the speed should be.

Mr. Chairman: Mr. Harris, supplementary?

Mr. Harris: Right. I appreciate the time restrictions that we have here. I am interested just to clarify a couple of things in the comments in supplementaries to the questions you have been asked.

The first one is that one of the factors a company will consider in making a decision whether to locate in the United States or Canada is the cost of doing business there, whether it is wage rates or whether it is tax rates. Would you agree that if the access question is not answered, a company is really not even going to spend money looking much further; in other words, that access has to be the first thing a company has to look at, either guaranteed access or security of access or--

Ms. Beck: In the last seven years, that point has become increasingly important as a factor with large corporations that operate globally. You can see that manifesting itself in a whole range of ways.

You look at the importance foreign companies have placed on the US market and accessing the US market. When the US dollar declined to a level where they could not make any money by continuing to export to the US, they have gone and opened production facilities in the United States.

It is like trying to take a bone away from a hungry dog. Market access is really where it is at, because what are the alternatives? Wait 10 years and go to China? Wait for Brazil to come back as a booming nation on earth? In a world where market share is not easy to come by, the value of that market share has taken a great leap.

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Mr. Harris: The second supplementary deals with the value of the Canadian dollar. My understanding is that we have attempted in Canada and, I think, in the United States to let our dollar float; I do not know to what extent. In other words, our dollar is worth what it is worth. Assuming that is the case, if our dollar should rise to 80 cents, which it is close to, or 85

cents, if it rises there because that is what it is worth, could you not argue that it should have no economic disadvantage at all? In other words, it is truly worth 85 cents and it has gone, say, from 75 cents to 85 cents because as a country, collectively, we have become more competitive.

Ms. Beck: And value is value.

Mr. Harris: And value is value.

Ms. Beck: You have raised, actually, a range of very interesting points. I agree theoretically that yes, we are in a world of freely floating exchange rates. However, since September 1985, I think one must seriously question whether that is practically the case.

Mr. Harris: Whether it is floating freely?

Ms. Beck: Absolutely. The Plaza accord and the heightened activities of the G-7 central banks have certainly brought that into question. I think quite possibly there is a case here that until 1985, we lived in a world of freely floating exchange rates. Since 1985, it has been much more of a co-ordinated exchange rate policy, much more of a managed exchange rate policy. Canada, as a member of the G-7, is of course part and parcel of that.

Mr. Harris: Would you argue that it should be free-floating?

Ms. Beck: I think the alternative to it not being free-floating is ultimately a world of fixed exchange rates. I think it is an either/or proposition.

Mr. Harris: I do not understand item 6.7 on page 15, the Ontario rent and royalty disallowance. Could you explain that briefly, please?

Mr. Robertson: Where there is a non-arm's-length payment of rent or royalties--

Mr. Harris: What does that mean? Give me an example.

Mr. Robertson: Let us say a US firm gives licensing rights to some know-how, and the Canadian subsidiary pays, let us say, 10 per cent of profits made on the sale using that know-how, Ontario disallows the deduction of that payment.

Mr. Harris: As an expense?

Mr. Robertson: As an expense. Even though it is, let us assume, a proper arm's-length number, they disallow it. That means the Ontario tax rate applies to that amount that is disallowed and it pops up about a five per cent tax on it, which is what Ontario once thought should be its share of the withholding tax that would go out on a royalty fee. Royalty fees between the US and Canada are now only 10 per cent, but that is the origin of it. They wanted to get a piece of that deduction, so they disallowed part of the expense, notwithstanding that it was--

Mr. Harris: As opposed to taxing the royalty?

Mr. Robertson: They cannot, because they have no jurisdiction. Either we are in a federal system or we are not, and it seems that if it is a



proper deduction, in other words, if it is not an overblown amount, this added impact seems out of place.

Mr. Harris: Does it apply interprovincially as well?

Mr. Robertson: No.

Mr. Harris: It is only out of country?

Mr. Robertson: Yes, out of the country, except where you go through another province to get there.

Mr. Chairman: Has that been tested in tort? You say it is not constitutional.

Mr. Robertson: No. I am sorry. They did this because they could not constitutionally tax a straight withholding tax, tax a nonresident.

Mr. Chairman: Mr. Mackenzie has a question and then Mr. Haggerty. I hope you do not mind us keeping you a little late, but we started late this morning.

Mr. Mackenzie: I could go back for a moment to my colleague's questions. You have given us a number of pages on the tax measures and you are obviously asking for lowering or exemptions or restructuring in terms of corporate taxes. I suggest to you that there is a perception out there that is very real and backed up by the fact that the percentage of tax we are collecting from the corporate sector is considerably less and has been going down as against what the public is paying.

Your company, Hudson's Bay, may be paying, as you said, no taxes. That may be because of losses you had in a couple of previous years. But I want to point out that I have one hell of a lot of workers in my riding who cannot claim a credit for income they have lost as a result of plant closures or loss of employment. When it comes to capital costs, I have a hell of a lot of workers who find out they need new furnaces in their houses or new roofs on their houses, and they sure as hell cannot claim any deductions as capital expenses of things they have to put into their houses.

I think one of the things you have to recognize is that there is a very real perception out there in terms of who is paying the tax load in this country. I would like to know whether you would have any disagreement with workers being able to claim a tax credit after a loss.

If I can give you a perfect example that has really nailed them, I will talk about the Firestone situation in our town, where we find a substantial amount of deferred taxes, where we find a pension plan that is not even fully funded, where there have been no special breaks for those workers as a result of losing those jobs, and something like \$95 million in the last year went out of the country from that company that is closing. It does not leave a perception of fairness in terms of the corporate tax structure.

Mr. Hall: I guess all I can say is we have lots of stores full of nice things to buy, and unless the employees have money in their hands, they are not going to buy them and we are going to be out of business.



When we ran into a situation where we had built up \$500 million in tax losses, it is doubtful that we could have continued business, really, had it not been for the knowledge that we would be able to use those against future profits. If we are out of business, then the whole system is down the drain.

I agree we have to help everyone; I am just saying it is not really a grab. It is just something to allow a company to continue in business. If we are not all in business, then we are all down the tube.

Mr. Robertson: Mr. Mackenzie, may I suggest that there are two questions in your question; one, whether or not there should be deductions--

Mr. Mackenzie: Equal treatment for workers who suffer as a result of corporate positions.

Mr. Robertson: You are going to erode your tax base tremendously, but maybe that is justice on the personal tax side. There are a number of reasons the personal tax is a blob, if you like, compared with the corporate taxes change. One of the obvious ones is that the wages and profits that have gone to individuals have increased relative to the corporate earnings. That is one statistical answer to it, which really does not bear on the other. If you separate out the two, there may be justification for what you say.

I always remember the toughest question I ever had put to me years ago when I was at the Canadian Tax Foundation was when a man came in off the street and wondered why, the previous year, he had not been able to get up to his exemption amount. He had not earned that much, and this year he had earned a bit more. Why could he not put them together? I never had a satisfactory answer for myself or for him on that, other than that is the way the system works, and you can change that. You have to go to the feds, because they govern provincial income tax. But there are two questions there, I think.

Mr. Mackenzie: I could go on and give more examples I have run into in the last year or two about workers.

Mr. Chairman: That might be an interesting explanation. Mr. Haggerty.

Mr. Haggerty: I know the hour is getting late, but I have about three areas I want to follow up on. One that Mr. Mackenzie brought to the attention of committee members and the panel is fair taxation. We talk about the proposed federal taxes now on services. We are going to see an increase in sales tax. If you take a look at what Mr. Mackenzie was saying, the person who has lost his job still has to pay for a home and meet the mortgage payments.

Something in free trade that may be of benefit to us Canadians here is that on the American side, when one is purchasing a home, the interest that he pays is--his tax is forgiven, in a sense. They say they can apply that for tax purposes and get a rebate back on it. We do not have that here. That is the problem, as Mr. Mackenzie was saying.

1220

When you look at it, usually when industry and small businesses make out their budget you might say there is a pass-through. If they are going to be paying taxes on any of these things--sales tax and everything else that goes along with it--it ends up that the consumer is picking up the tab. So really it is the consumer we are concerned about in this area.

In the summary of recommendations in appendix I, number 7 says: "The board believes that, while the proposed dispute settlement mechanism will operate based on existing trade laws and thus leave Canadian exports open to harassment...."

That question was raised with a previous witness here. They founder, you might say, on the leap of faith. He said, "We are no further ahead in free trade in regard to the countervailing duties."

If you are not aware of the Campeau takeover of a large business in the United States--that is, in the area of retail business--the Congress and Senate now are moving to bring in more protectionism in this area to stop the takeovers by foreigners. That is the movement taking place there.

You go on to say, "The board believes that Canada's metals and minerals sector stands to gain from free trade, owing to its already competitive position in international markets."

In the paper sector, the forest industry and the mining sector, anything manufactured here in Canada through the mining process and the forest sector is priced at the price of the American dollar, so it means nothing in that area. But witnesses who appeared before the committee indicated that once the Canadian dollar gets up to that 80-cent or 82-cent level, we are no more competitive. Are they correct in that?

Ms. Beck: If you assume that you preserve the status quo, then I think that is probably a fairly valid assumption. However, one of the things we are seeing out there is a very significant shift in the approach to pricing. That is where corporations--and I hope many, many of them in Canada--become increasingly more willing to price to market; in other words, ask themselves, "What is the price that will carry these goods in the market?" and then adjust cost structures accordingly. Frankly, that is really why the Japanese and many German companies have been so very successful in penetrating export markets. They have not been willing to sit there and say, "Our cost structure is a given and we are not willing to be flexible and alter that." I give Canadian companies a great deal of credit and say that when push comes to shove, we will find those flexibilities.

Mr. Haggerty: What happens when it does go through, though? There has been a pitch here that consumers are going to have a lower cost when purchasing goods. Now what happens here? You tell me the Canadian sector will have to bring its prices down to compete with the Americans coming in and establishing business here or selling their commodities. What you are telling me, in a sense, if I can interpret it, is that someplace along the line the Canadian consumer has been overburdened with higher costs than the American.

Ms. Beck: As is the case with German and Japanese consumers, the more restricted markets are, the less opportunity there is for the lowest-cost producer to set a market price to the benefit of consumers. A freer trade environment is much more conducive to a lower-cost structure on a global basis.

Mr. Haggerty: But based upon the European Community, the free trade they have within the community there and perhaps in the United States, it may take the average worker over there two months' wages to buy a winter coat. How can you say that things are going to be cheaper when we move into a common market concept, as the President of the United States wants to see with Mexico, Canada and the United States?

Ms. Beck: I am not sure what the cost of coats is.

Mr. Haggerty: But just in food alone.

Ms. Beck: You can also find many cases where actual costs in Europe are much lower relative to costs in Canada. I think what really counts is that at the end of the day, once the consumer has purchased the housing, the services, the goods he requires, has his income been able to support that and can companies remain competitive paying those incomes to these ultimate consumers. It is very possible that you can find discrepancies in any market. From one province to the next, it will cost more or less to buy a particular good or item. In the long haul, I think it is very important for consumers to be--

Mr. Haggerty: We had the Ontario Natural Gas Association in before the committee. One of the suggestions that they were concerned about in the trade agreement was the proportional sharing of our energy. I think they have indicated that we have 30 years of known energy now in gas available. As soon as we go to this proportional sharing it reduces down to maybe 15 or 12 years--in that area.

You are suggesting that free trade is a wonderful thing. What do you think about that then? If this were to happen, that our natural gas will be depleted within 15 years, where do we turn to here in Canada for additional energy?

Ms. Beck: I am not familiar with the study that cites those specific figures. My sense, however, is that within the energy industry in Canada there is not a stunning degree of opposition to that. It is perhaps the difference between wishing to sell our goods or not sell our goods. I know that is a massive oversimplification of the point, but I think the point is an important one.

Mr. Haggerty: I suppose if other provinces were doing the same as we are doing here, having open discussions on the area of free trade, maybe the public would be better aware of some of the good sides and the downside of the free trade business. In energy, I think it is one of the downsides that really we are selling out our resources to it.

Mr. Chairman: I think we are not going to resolve the trade issue right now, and frankly I do not--pardon?

Mr. Harris: Can I ask just one other thing?

Mr. Chairman: On apprentices?

Mr. Harris: Yes, sorry, I know we are all late.

Mr. Chairman: Go ahead.

Mr. Harris: I was intrigued that you indicated on apprentices, in response to the question that you had not really addressed, what I think a lot of us perceive as a problem, and I think in industry too; that is, whoever is paying for the training, and the transfer of that. Because the employee quits and goes to work for somebody else, that money is lost. I think that has to be addressed, thought put into it and recommendations made.



The armed forces take care of it. They say, "We're going to train you and pay for it, and you have to work for us for X number of years." I do not know whether we can be that strong. Presumably, if government paid 100 per cent, companies would not care. That is fair. The government paid for it, so the employee can go to work wherever he or she wants.

Surely there has to be something in there; I do not know what it is, but I think that you are going to have to start to address that. There is a tremendous disincentive in Ontario to be involved in apprenticeship training.

Mr. Robinson: There is a financial disincentive in the sense that it costs the employer a great deal of money. The question becomes how you create an incentive for nontraining employers. This is a matter of concern to the Ministry of Skills Development in a number of its current policies.

The proportion of large firms that engage in formal training in Ontario is very, very low, and it is very low nationally as well. As a nation, we are making very, very modest investments through public money and private money, very modest investments in training, post the formal education system, and that would include apprenticeship. So the amount of money we are spending on training and upgrading the workforce in Ontario and in Canada is very low.

How one responds to that is a very difficult problem, to create incentives or restraints for employment contracts. It tends to be quite a complicated problem.

Mr. Harris: One of the other problems we talked about with the university community is that Canadian corporations do not support our university programs nearly as much as American companies do. Is it totally unfeasible to look at some system that charges an employer for the employee he gets--in other words, the training that he gets, or some form of that--as trying to equalize the system? Or is that going to throw far more problems into it?

1230

Mr. Robinson: There are models which have been put in place in other jurisdictions where the employer pays a surcharge, pays a fee, and gets that fee credited back to him as he engages in training that is approved and so on.

Mr. Harris: If there was an assessment made for everybody a corporation hired of how much education or training that person had, then you would deduct what the company does?

Mr. Robinson: No, in this case it is the activities of the employer. If you employ 100 people, you would have 100 times an individual assessment against the company. You can reclaim that by engaging in approved training, regardless of the amount of training that went on before in other settings and so on.

The problem with those sorts of systems is that they become administratively extremely complex. You have to inspect the training and ensure that it happens and that it is to an appropriate standard, and you get rigidities built into the system and expenses built into the system that become monstrous. It is a very difficult system to move to. It requires a great leap of faith that it is going to improve the situation, it undoubtedly makes government more intrusive and it is more expensive to administer that system.



It is one that we are not very strongly in favour of. We have looked at it in some past discussions and have not taken a formal position on it, but members of our committee have not committed to that as an answer to the training problem.

Mr. Chairman: Where is that being done? Do you know?

Mr. Robinson: I believe the United Kingdom is one example of that.

Mr. Harris: You suggest classifying apprentices as students. I assume that is to get around layoffs and what not.

Mr. Robinson: Exactly, yes.

Mr. Harris: What do the unions say about that?

Mr. Robinson: Many of the unions have traditionally been fairly restrictive about the numbers of apprentices who can be hired and about their status. I am not aware of unions having taken a formal position on apprentices as students. Currently, in many occupations, the union takes an active role in recruiting and securing contracts for apprentices, and that depends on the jurisdiction, on the location, and the trade.

Mr. Harris: If there are layoffs, they would argue, "You don't need the apprentices and our full-time union members get first crack."

Mr. Robinson: I think you could probably extend that argument. I have not heard that argument being made, but it would seem to follow.

The problem, from the apprentice's point of view, is that this is yet another disincentive to entering apprenticeship, where the stock of people and the quality of people willing to enter apprenticeship training should be improved. The numbers and the skills and capabilities of people who seek apprenticeship training should improve, because these are very valuable jobs and jobs which have considerable scope for personal earnings and considerable impact on the industrial sector of Ontario.

Mr. Harris: To do what you are suggesting would, I think, require a massive degree of co-operation with government, industry and unions as to what are the apprenticeship requirements. When there are layoffs in one industry, there may be a strong demand for apprentices provincially, but they have to take priority on the layoffs over the full-time employees. That is really what is going to happen.

Mr. Robinson: That is a very important consequence, and I may say there has been in previous years a high level of co-operation with employers, unions, labour organizations and government in terms of the structure of the apprenticeship program and the administration of it.

It is being done, to a very large extent, outside of government without direct government expense. It is being done by the private sector, organized with some regulation from the Ministry of Skills Development, but largely on a private sector initiative and very largely as a private sector expense.

Mr. Chairman: You have given us an awful lot to think about, and I am sure we will be thumbing through your brief as we try to grapple with the problems of taxation particularly. We appreciate it, because I think members

of the committee have indicated they have heard an awful lot about various sectors that need more. This morning we have heard, especially from yourselves, more of the how to part.

I think we heard from another group at the board of trade with regard to the trade issue already, and we are in the middle of that. I do not expect we are going to say too much about that in our prebudget matter.

On international banking centres, you may recall that we did endorse the position of the board during the last parliament and strongly recommended much of what you have recommended to our government. I think that position may well continue.

We appreciate your putting so much care and attention into this brief. Thank you very much.

Mr. Hall: We thank you very much for hearing us and giving us such a courteous, full hearing. See you next year.

The committee recessed at 12:35 p.m.



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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

PREBUDGET CONSULTATION AND TAX REFORM

TUESDAY, FEBRUARY 23, 1988

Afternoon Sitting





STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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Substitutions:

Harris, Michael D. (Nipissing PC) for Mr. McCague

Pollock, Jim (Hastings-Peterborough PC) for Mr. Villeneuve

Polsinelli, Claudio (Yorkview L) for Mr. J. B. Nixon

Clerk: Carrozza, Franco

Staff:

Anderson, Anne, Research Officer, Legislative Research Service

Witnesses:

From the Blind Organization of Ontario with Self-Help Tactics:  
Southern, John

From the Ontario Trucking Association:

Sanderson, John, Vice-President, Public Affairs, CP Trucks Ltd.

Bradley, David H., Director, Economics and Executive Assistant to the President

From the Ontario Public Service Employees Union:

Usher, Sean J., Director, Special Operations Department

Robinson, Lukin, Researcher, Special Operations Department

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday, February 23, 1988

The committee resumed at 2:05 p.m. in room 228.

PREBUDGET CONSULTATION AND TAX REFORM  
(continued)

Mr. Chairman: Our first presentation this afternoon will be from BOOST, the Blind Organization of Ontario with Self-help Tactics. John Southern is the spokesperson. Mr. Southern, perhaps you can take it away and make your statement to us and then be prepared to entertain some questions.

BLIND ORGANIZATION OF ONTARIO WITH SELF-HELP TACTICS

Mr. Southern: BOOST is a self-help group of blind people and we have been in operation now for almost 13 years. I guess that over those 13 years many of our priorities have remained the same. Certainly, the four priorities we are going to address today have been in the forefront of our organization since it started. There has been some progress in some of these areas. Nevertheless, we still think there are areas for improvement and in some cases there has been no money or effort to address the issues.

The four issues I am going to address today are, one, communications, that being mainly access to information; two, assistive devices, those being devices that disabled people might need for physical or medical use to live a more independent life; three, income maintenance, which I guess is self-explanatory; and four, attendant care.

To start at the top, communications: One of the biggest areas, especially for the visually impaired, that we are being denied access to is information. A million and one government reports come out. Even trying to interact with government when government asks for our input is quite difficult if we cannot get access to various kinds of information.

BOOST feels that at least one per cent of the publicity budget should be spent on providing access, information in usable form to people with a print handicap, not only so that we can fully participate and know what is going on in our province but also because it is an important area when it comes to employment. Often there are government jobs available. The government says it is interested in employing more disabled people. That is not the issue at stake today, but we do not even know where those jobs are located or when they are being advertised. There is no outreach being done in that area to accommodate people with a print handicap.

It should be against both the Constitution and the Ontario Human Rights Code to deny us access to such information. I think it is about time the government really put its money where its mouth is. During the election campaign, a lot of paternalistic statements were made about making access to information available to the disabled. We have heard it before and I hope we will not just keep on hearing it. I hope we will see some action in this area.

The next area I would like to address is attendant care. I know other groups of disabled people have attendant care needs, particularly the severely

disabled, but there are some attendant care needs that blind people may have. They may need some home care just to help them around the house once or twice a month. It may be as little as that, but blind people are not getting that. Rehabilitation to teach blind people life skills is so poor in this country--I do not mean life skills in assertiveness training and those areas but life skills in the everyday sense like cooking, cleaning, personal care, whatever--that I really think it is an area that has been neglected for blind people. Unfortunately, some do need attendant care.

Other things fall in that area, such as providing a reader for a blind person to read the mail or whatever. Often it is said that a family member or a friend can do that, but some of the materials are of a personal nature. Sometimes I do not know if you want a family friend or a family member doing your banking for you or something like that. You want some privacy in your own life. Although the issue of attendant care has been addressed somewhat, I do not think people have thought of the fringe elements of it, such as blind people needing some kind of care from time to time.

1410

Another area I would like to address is income maintenance. Income maintenance is a big area. There have been some improvements in the last few years. I am also a member of the Thomson committee that is reviewing social assistance in our province. Obviously, I am not going to talk about that until the report comes out. Nevertheless, because the report will probably not be available until after the budget, I hope some moneys will be put in reserve.

That is one area where I think this province really has to look at spending more money. Otherwise, if you just put a little bit of money here and a little bit of money there and keep patching the fabric, one day it is going to give. I hope some real effort will be made to improve the lives of disabled people in this area. Going across the province with the committee, the inadequacy of the amounts was certainly the major, number one issue. I hope that will be addressed by this government.

Particularly blind people: Some people think that if a blind person is in subsidized housing like Ontario Housing Corp., he probably can survive, not in luxury but at least minimally on the money that is provided, on the family benefits plus the guaranteed annual income system for the disabled, but I know many blind people who for the last week or so of the month probably almost starve. Because they are unable to cook for themselves, they have to buy meals in restaurants. It goes from a fairly good meal at the start of the month down to fast food joints down to buying a sandwich from the 7-Eleven or somewhere.

To have some of my brothers and sisters almost starving to death in a province as rich as this is unforgiveable. I cannot stress that enough. I think it is about time I stopped hearing stories like that. Working at BOOST, I know too many of them.

Assistive devices: The Premier (Mr. Peterson) announced that the assistive devices program will be extended to all people of all ages with disabilities by March 1989. I think that is a good announcement and well-meaning, but if the money is not there to provide the assistive devices people need and the program is not versatile enough to provide the equipment people need, then we may as well not have an assistive devices program.

There are even problems with the phone program for the people it is available to. People are getting equipment and no training and people are



being offered training and have to wait months to get the equipment. There are real shortages of money in the assistive devices area.

Those are the four major areas I would like to address. I would just like to say that in the area of disabilities, I think all governments in Canada are failing to meet the needs of disabled people. It is about time you did. Never mind about increasing the deficit; the cost benefits of helping disabled people back into society could lower your budget. The cost factors have never been looked at or thought of and I think it is about time. If money was spent in this area, you would see a good return on your money.

Mr. Chairman: Thank you very much. I am curious about one comment you made about the Thomson report. Do you have any inside information as to when we are going to hear from Judge Thomson?

Mr. Southern: I would rather not comment on the report at this time. It is just not the thing to do.

Mr. Chairman: Are there any questions?

Mr. Mackenzie: A chap by the name of David Baker and a number of people from the Advocacy Resource Centre for the Handicapped were in last Tuesday and presented us with a very good brief on their concerns. Other than your zeroing in on the access to information, on some of the problems faced by the blind, would you generally support their brief? Are you aware of their presentation?

Mr. Southern: I am aware they made the presentation. I have not read the brief but I am probably 99 per cent sure I can go along with what they had to say.

Mr. Mackenzie: It had to do maybe with a little broader picture, including potential tax measures and so on. I found it interesting. I just assumed there might have been some interplay between your group and theirs.

Mr. Southern: There is. Dick Santos was meant to be here today. I am substituting for him because he had to go to a transportation meeting in Ottawa. He is not only a member of the BOOST board of directors but also president of the Advocacy Resource Centre for the Handicapped. The interaction between BOOST and ARCH is substantial. I am sure he could have spoken more knowledgeably about the ARCH presentation.

From my work with BOOST and with Persons United for Self-Help in Ontario, I have a fair idea of what their presentations contained. I thought that especially access to information and the difference in attendant care were well worth presenting from a different standpoint.

Mr. Mackenzie: They stressed the need for attendant care in part of their brief as well.

Mr. Southern: Yes. If someone is a quadriplegic, he quite obviously needs attendant care. I do not think people realize that even for the most independent blind person--I could live quite well on my own but now and again it is nice to have somebody help you with the housework. You do not know if you have missed a spot in the middle of the living room when you vacuum or something. It is just nice to have that extra help. I have enough friends that I can get that, but there are people who do not.



Mr. Mackenzie: I am not trying to pry here, but how much of a problem is the personal issue, whether it is mail or banking.

Mr. Southern: I think it is quite considerable. For myself, I am not one who needs a lot of privacy. I grew up in a big family and it is just not a priority for me, but for many blind people, it is. It is a real issue. To get the mail read--they cannot deal with anything. They have no privacy at all. They feel restricted in what they get, in what they read. They cannot just order a copy of Playboy or anything, whatever they want. They feel really restricted in their lifestyle because they have no access or no privacy. Banking is a key issue. It has been raised many times that we cannot get any assistance with banking. Some banks will provide it, but at a cost.

Mr. Chairman: Are there any other questions?

Thank you very much, Mr. Southern. As Mr. Mackenzie indicated, you are not the first person to bring these problems to our attention. They have been brought to our attention by yourself and the previous delegation in a very eloquent manner. There is no doubt that we will have to take a close look at it. Unfortunately, it is the case that we, as politicians, are being forced to look at this issue more closely than we have done in the past. I appreciate your bringing it to our attention again.

Mr. Southern: I would like to thank you for giving me this time to make a presentation. I really do think it is time that there was more action around the area. Persons with disability--

Mr. Mackenzie: We will urge you, John, as we did the previous group, to take a close look at whatever recommendations come out and the subsequent actions from it. I think the chairman is right. It is an area in which we have not necessarily done as much as we have sometimes talked.

Mr. Southern: I hope you make the information available in useable form.

Mr. Chairman: Our next presentation, from the Ontario Trucking Association, is not scheduled to start until three o'clock. Ms. Anderson stayed up all night and prepared briefing material based on everything we have heard until this morning. I would suggest that, as we have 35 minutes or so, it might be an appropriate time to start looking at this material and see what we want to do with it. If it is agreed that we do that, I suppose, if I am reading the committee correctly from the discussion we had this morning, that we should go in camera.

Mr. Pelissero: Everybody else is gone anyway, so what is the problem?

Mr. Chairman: Everybody else is gone, so maybe it does not matter.

Interjection.

Mr. Chairman: Oh, including those guys. It matters to one person at least. I think it would be in order to have a motion, if you wish to go in camera. If you do not, we can go right ahead and start discussing it.

Mr. Polsinelli: So moved.

Motion agreed to.

Mr. Chairman: We will go in camera until the trucking association comes.

The committee continued in camera at 2:20 p.m.

1456

Mr. Chairman: The Ontario Trucking Association has the status of giving us the very last word before we actually write our report. You could not have chosen a better time. We have actually just finished some preliminary discussions and we are going to be spending all day tomorrow and Thursday preparing our report. If politicians are the sort of people who regurgitate what the last person who spoke to them said, you have a good--

Clerk of the Committee: We do have another group.

Mr. Chairman: Oh, I am sorry. We do have a group at four o'clock. I had forgotten about that. I take it all back.

Interjection: We can drag it out.

Mr. Chairman: In any event, you are the second last.

We appreciate your coming. Most of us are familiar with you: David Bradley, director of economics; John Sanderson, vice-president, public affairs at CP Trucks Ltd. The submission was exhibit 18. It was initially distributed on February 15. If you do not have it with you, I guess there are new copies that have been distributed.

Perhaps one of you can lead us through it, and then we will ask you some questions.

#### ONTARIO TRUCKING ASSOCIATION

Mr. Sanderson: I would just like to take you through our submission very briefly. I will not read the whole thing to you, but perhaps I can touch on the key points.

If you turn to page 3, we started off by doing an assessment of where the economy of Ontario is at the current time, how it had progressed to where it is and where we saw it going over the medium term. The resource document we used for this basically was the 1987 Economic Outlook and Fiscal Review prepared by the Ministry of Treasury and Economics.

A few things hit us when we went through that document. One was that while the Ontario economy has been growing at a very healthy pace over the last few years, in fact outpacing most other industrial economies, we did see that there was a downward trend for the coming year and again over a longer period.

We also noticed that while the Treasury officials did not forecast a United States recession, they certainly raised the possibility of a US recession. To us that is a warning signal. If the US economy heads into a downturn, we would expect to see that translated into slower growth here in Ontario, so we took note of that.

On the fiscal side, the outlook showed that the fiscal imbalance of Ontario has shown improvement in recent years, and it is our opinion that the

fiscal instability that has plagued governments throughout the world and in North America in recent years has been responsibly addressed here in Ontario. However, we also take note of the more recent numbers which show the deficit climbing back up over \$1 billion, and we are hearing and reading in the press what impact that might have come budget time.

The third thing is that when we take a look at this, we look at the Ontario economy, but then we look at the trucking industry in the Ontario economy and the things that are going to affect us there. We have already spoken to this committee just recently on free trade and on deregulation, so I will not go into that heavily again, except to say that what we are likely to see is an increased presence of US carriers in our markets and that this will continue to occur and grow. In so far as the Ontario economy is slowing down and in so far as we have a derived-demand industry in Ontario, that could pose extra problems for us if we combine slower economic growth with deregulation and free trade.

Having taken account of that and setting the stage there, we looked at what we saw as priority objectives for the 1988 Ontario budget, and I think we share these objectives with this committee and with the government, for the most part.

Number one, we want to ensure sustainable economic growth. I do not think there would be any disagreement from anybody there.

The second thing we would like to do is to maintain and enhance the competitiveness of Ontario industry. Again, by virtue of deregulation, we would be opening up our markets here. That is a significant point of interest to the Ontario trucking industry.

The third thing would be the reform of the Ontario tax system consistent with the federal initiatives. I will talk a bit more about this in a few moments, but it is extremely important that tax reform occur here in Ontario, and one of the things I will be addressing is the risk of Ontario trucking companies moving to the United States because of tax reasons.

We have five major areas of concern that we address in our brief. Starting on page 5, the first is compensation for loss of value of operating authorities. Over time, motor carriers have expanded their companies through the purchase of other companies. This purchase of other companies has basically been for the purpose of acquiring additional operating authorities, because these authorities could be treated as assets on balance sheets. These asset values are extremely important to bankers and to truckers in terms of facilitating loans and continuing lines--

[Failure of sound system]

Mr. Chairman: OK. Start at the beginning of that paragraph.

Mr. Sanderson: OK. You want me to go back, Mr. Chairman?

Mr. Chairman: To the beginning of that paragraph.

Mr. Sanderson: OK. I am speaking about loss of value of operating authorities and I am saying that these asset values are crucial in terms of trucking companies being able to obtain loans and to be able to obtain continuing lines of credit. When deregulation occurs here in Ontario, when Bill 88 passes, those asset values will drop to zero immediately.



What the trucking industry is seeking--and we would like to get this committee's participation in this--is some compensation for loss of value of those authorities. There is a precedent for this already. In the United States, when they deregulated interstate traffic there, US carriers did receive compensation for loss of value of authorities on the order of being able to write off 20 per cent of the book value of those assets over a five-year period.

If you turn to the appendix following page 16, appendix A, you will see that the Minister of Transportation (Mr. Fulton), in writing to Michael Wilson, indicates his support for the Ontario trucking industry with respect to this issue. Granted, the minister was writing in the context of a federal deregulation, but the issue is the same here. If we now deregulate within Ontario, the value of those intraprovincial operating authorities will fall to zero as well.

Also, in appendix B we note that the Canadian Bankers' Association, in a submission to the Ontario Highway Transport Board in 1983, verified the fact that, "Whatever imperils those authorities imperils the borrower's ability to stay in business (hence his ability to repay his loans) and, in turn, the availability of the lender's recourse to collateral security." The bankers are taking a very close look at this, and we foresee problems if we do not receive some compensation.

What we are proposing on page 6, our recommendation, echoes what US carriers got. Again, that is a 20 per cent write-off for five years.

On page 7, our second key area of concern involves funding for roads and highways in Ontario. Without going through all the text, if you just take a look at the charts on the bottom of page 7, I think they quite clearly show what has happened to the level of commitment to enhancing, upgrading roads and highways in this province.

Exhibit 3 shows that the total highway expenditure per registered vehicle has dropped enormously. The real dollars spent on provincial highways and municipal roads in exhibits 4 and 5 follow a similar downward pattern. The total Ministry of Transportation budgetary expenditures as a percentage of total provincial budgetary expenditures also has dropped drastically.

Those charts, particularly exhibits 4 and 5, do show that in the last two years the government of Ontario has turned the corner and there is some slight upward momentum, but we have such a long way to come back. Any of us who travel across the top of the city on Highway 401 or come from the north, where the potholes and rutting are very much in evidence, can see that we really have a job to do here. I think in the past, Ontario has been able to build up its competitive position to a great extent because of the strength of our highway infrastructure here. We see that falling into disrepair now, and as we head into a continental economic market, we think we need a renewed investment there.

Our recommendation is that in light of the overwhelming need for repair and expansion of Ontario's roads and highways, an additional \$300 million per year after inflation for the next five years is required. We need this significant injection of funds to bring the highways back up to standards.

On page 9 we look at our next issue, which is diesel fuel taxation. This is important to us because trucks account for 80 per cent of total diesel fuel consumption in Ontario, and we pay about \$250 million per year in provincial diesel fuel taxes.



If you turn to page 10 and take a look at the graphs and charts we have here, what you see is that fuel accounts for about a quarter of total linehaul costs. It is a very significant part of our cost structure.

Exhibit 8 shows what has happened with diesel prices in Ontario vis-à-vis the United States. You see there is an enormous gap on the order of about 15 cents Canadian per litre, putting us at a severe disadvantage when compared to the Americans.

Exhibit 9 shows a comparison between provinces and between individual US states. They are translated into Canadian cents per litre. Again, you see the difference is about half in the US as compared to Canada.

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It is interesting to note that, in the October 1985 Ontario budget, diesel taxes rose 0.6 cents a litre, and it was proposed at that time by the Treasurer (Mr. R. F. Nixon) to raise the gasoline tax 0.6 cents a litre as well. You will recall that the Treasurer backed down on that. He rolled back the increase on gasoline taxes. What we are asking for is some fairness here. We would like to see a rollback in the diesel tax on the same order as what occurred for gasoline.

Another interesting feature of the Ontario tax on diesel is comparing that to the tax on gasoline. Currently the tax on diesel is 9.9 cents a litre in Ontario, whereas the tax on gasoline is 8.3 cents a litre. But when you take a look at other jurisdictions, if you turn to the US example first, in 36 states the tax on gasoline and diesel are identical; in four states the tax on diesel is less than on gasoline; and in only 10 states do you have a situation where the tax on diesel is greater than that on gasoline.

Similarly, in two provinces in Canada the tax on diesel is less than on gasoline and in two provinces it is the same. Only in six provinces do you see a situation where the tax on diesel is higher than on gasoline. Again, our recommendation there is that an immediate 0.6 cents per litre rollback in the provincial tax on diesel be included in the 1988 provincial budget.

On page 11 we get into stage 1 tax reform. There is an Ontario component to this that is very important to us. In the appendices you will see some charts and tables put together for us in a study conducted for the Canadian trucking industry by Price Waterhouse, chartered accountants. That study showed us that while the federal initiatives on tax reform, particularly the lowering of the federal corporate tax rates, go some way towards narrowing the tax gap between an Ontario-based trucking company and a US-based trucking company, they do not go nearly far enough.

Two things that stick right out as areas where Ontario should give serious consideration to the competitive situation of Ontario truckers are on corporate tax rates. The combination of state and federal tax rates in the US, compared to provincial and federal corporate tax rates in Canada, shows that we are at a significant competitive disadvantage.

In addition, a major point of concern to the trucking industry is how in Canada we handle CCA rates, or capital consumption allowances. If you turn to page 13, exhibit 11, which is the box at the bottom of the page, shows that in Canada it will take you 13 years to write off the cost of a tractor, whereas in the United States it is a 100 per cent write-off after four years, and really 93 per cent after three years. With trailers it is a similar situation: 13 years in Canada and six years in the United States.

This is extremely important to us because on January 1, 1988, the government of Canada deregulated interprovincial and transborder trucking, which means we have de facto free trade in transportation in the North American market. A trucker can base himself either in the United States or in Ontario and take advantage, be able to drop off here in Canada and go back to the US. I am not sure if I am making myself absolutely clear on this point. Under federal deregulation, when somebody is making a transborder movement, he can use US drivers and US equipment on Canadian highways. That US equipment they are writing off in four years versus 13 here. That is putting us at a significant disadvantage.

I can you tell you that this has become a rather symbolic thing for the trucking industry. We had been pressing Mr. Wilson, the federal Minister of Finance, to address this problem in his most recent budget. I can tell you that in the period between January 1, 1988, and February 10 a lot of Ontario-based transborder trucking companies were sitting and watching what the minister was going to do. The minister did not address this in his budget and we have had, just within the last few weeks, a number of Ontario-based trucking companies making forays down into the United States to set up US operations, so you will begin to see the transborder part of the business now being run out of the US and Canadian tax revenues and profits flowing south.

What we are, therefore, recommending to this committee is that the government of Ontario lower the provincial corporate tax rate in the 1988 budget so that we are in a competitive situation vis-à-vis the Americans and that the government of Ontario immediately call upon the federal Minister of Finance to adjust vehicle depreciation rates to the US rate levels. We cannot wait until the next federal budget for this to happen. I do not think Ontario wants to wait for that to happen either because, as I said, companies are making the move now.

On page 14, we get into the stage 2 tax reform issues. These, of course, are some time in the future. We do not know if and when, but none the less what is being proposed is a new multistage sales tax on both goods and services. What we would have, for the first time in Canada, is the service of trucking being taxed. That leaves us concerned in terms of how this is going to be addressed and how it is going to be handled.

The second bullet point on page 14--I will read it because it is often a tongue-twister. The white paper that Finance Minister Wilson released last year said, "Under the white paper multistage sales tax proposals, international outbound trucking movements from a point in Canada to a point outside Canada, i.e., the United States, would be taxable if billed to someone in Canada, while international inbound trucking movements from a point outside Canada to a point in Canada would be tax free, regardless of who is billed for the service." You have a situation there again where the US carrier carrying goods from the United States into Canada would not be taxed, but the Canadian carrier taking goods from Ontario into the United States would be taxed.

That creates a serious competitive disadvantage. We do not really know the reason why they would do this. I suppose, if we could hazard a guess, it would simply be that the administrative burden of trying to catch all those US carriers coming up from the south would be too great, but, none the less, we would have to show those taxes in our international tariffs and anybody who is going to check tariffs to decide on a carrier will not pick an Ontario carrier.

Another point we think the government of Ontario should be interested in is the issue of excise taxes on fuel. For many years, fuel taxes were the

domain of provincial governments. However, we have seen, in the last few years, a situation where the federal excise tax on diesel fuel rose from zero cents--there was no tax when the Progressive Conservative government came to power, but in a very short time period it has risen--to a level of four cents per litre.

What we are getting from the Department of Finance in Ottawa now is that it is not committing--in fact, far from it--that when the federal government introduces this new multistage sales tax, whether it be a business transfer tax, value added tax, national sales tax or whatever, it would not either eliminate the excise tax on diesel fuel or, at least, roll that excise tax on diesel fuel into a national sales tax.

The excise tax on diesel fuel is, in our opinion, a regressive tax. It is a tax on distance. The more miles you travel, the more diesel fuel you burn, the more tax you pay. For communities in the remote and outlying regions of this province, that should be of great concern. If they leave that tax on after the stage 2 tax reform proposals, what you will have is a tax-on-tax situation. We would like to see this government press the federal government to ensure that either that tax is eliminated or it is rolled into the new national sales tax.

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I can tell you that with respect to stage 1 and stage 2 tax reform, this industry saw tax reform as an opportunity for the government of Canada and the government of Ontario to ensure that Canadian truckers--through free trade, deregulation, whatever--have a level playing field, that they are on a footing where they can compete with the Americans.

Again, the federal government has gone some way towards that, but we are still left in a disadvantaged position. What we run the risk of--and I do not exaggerate this--is all transborder traffic shifting from Canada, and Ontario, to the United States.

With that, we will be pleased to take any questions you may have.

Mr. Chairman: Thank you very much. We have questions from Mr. Haggerty and Mr. Mackenzie.

Mr. Haggerty: On page 10, you have comparative fuel taxes. Have you done any studies in the area of trailer licensing of American rigs compared to, say, rigs in Ontario? Is there a difference between that on the American side compared to what there is in Ontario?

Mr. Sanderson: I have not looked at the numbers, but I do not know how important a factor that really is. Ontario has reciprocal agreements on plates, registrations, with 38 or 39 states. For the most part, they do not have to pay a registration fee here if they operate in Ontario. I could not tell you what that administrative licence fee would be in, for instance, Michigan versus Ontario.

Mr. Haggerty: The reason I raise the question is that I have a number of independent truckers, you might say, or brokers, who have the tractor itself. They feel that every time there is a tax increase, it really hits the guy who owns the rig, the tractor--fuel tax, licence on the vehicle. When it comes to the trailer part, what are the rules in Ontario? Is it for the life of the trailer? Would it be 13 years or what is it? What is the average? I mean, there are different weights.



Mr. Bradley: The cost of registering a trailer is nominal in Ontario.

Mr. Haggerty: What is nominal, though?

Mr. Bradley: It is in the order of \$100.

Mr. Haggerty: That is for the life of the rig, though, is it?

Mr. Bradley: There is an annual fee, but it is not a major expense. Compared to the relative cost of diesel fuel, which is 25 per cent of the cost of operations, the price of registering a trailer is not really significant. That is true all across Canada and largely in the United States as well.

Mr. Haggerty: In the deregulation here on the Canadian side and the American side or whatever, we have what they call the trains. I do not know if they are going to be allowed on our highways or not, but again you have a tractor, a trailer and another trailer behind it, you might say. They are carrying a considerable payload there. The question is, are they carrying the freight to take care of the cost of repairing the highways?

Mr. Bradley: It is clearly very economic to use extended-length vehicles. They are in use now in 23 states in the United States and also in five provinces in Canada: British Columbia, Alberta, Saskatchewan, Manitoba and Quebec. They are not yet in use in Ontario.

Mr. Haggerty: They are heading in that direction, are they not?

Mr. Bradley: The benefits are in the hundreds of millions of dollars a year for Canadian shippers. It seems logical to us that when and if those trailers are allowed in the province, it probably is appropriate to have a larger tax apply to them. I hate to say that as a motor carrier, but because the savings are very substantial, it would seem appropriate to have a somewhat larger tax for the ability to carry a lot more freight on the highways, even though the damage factor is not significant, because the overall gross vehicle weight would not increase.

Mr. Haggerty: That is sometimes hard to buy, though, is it not? I mean, the weight is on that truck regardless of what it is. If you travel the highways today, you can see the dip in the centre, where the two wheels travel. At one time, they said it was caused by studs being on snowtires; steel studs that were causing the wear and tear on the roads. You find out now that the depressions that are there are sometimes considered a hazard. Is this part of free trade? Has this been considered under the free trade pact, that you be able to enter Canada with a train style of carriers?

Mr. Bradley: No, they will not be allowed to use that type of equipment in Ontario.

Mr. Haggerty: They will not?

Mr. Bradley: No. Not until such time as Ontario permits that equipment on Ontario's roads and highways.

Mr. Mackenzie: The level playing field argument will come into play pretty quickly.

Mr. Haggerty: What was that, Robert? I thought he had a supplementary.



Mr. Chairman: No. I think he was talking about something funny.

Mr. Haggerty: I have no further questions.

Mr. Mackenzie: A couple of things intrigue me in your brief, including your arguments to lower taxes to meet the US trucking companies' competition. If we are going to be making all these moves to lower taxes in Ontario so we can more effectively compete, if indeed we can, with US competition, how do we pay for the services we are now paying for? We are now under considerable demand, in some cases, to increase or beef up or assist services, and some of the arguments are pretty good.

Mr. Bradley: That is a very interesting question. What we have been considering, part of our concept and our proposal and our concern, is that unless the Canadian trucking industry has a tax structure roughly equivalent to, not identical to, the US tax structure, there will be a very marked advantage for a carrier based in the United States to be able to operate transborder and, to some degree, within Ontario. That means that over a period of time, to survive, a Canadian carrier must move a good part of his operation to the US to come under that US tax law. When he does that, he shifts his entire income tax payment, and all the contribution he and his employees and his purchasing power with equipment and parts and other things have, to the United States. The loss at that point, we think, is far greater to Canadian tax rolls than to make Ontario truckers competitive so they can thrive, be successful and pay more taxes in a provincial sense as a tax base here.

Mr. Mackenzie: What you are really saying is that what you might be forced to do is move; it is not free trade you are scared of or will use as an argument or even oppose, it is the better tax breaks you get in the US that will cause your companies to move anyhow.

Mr. Sanderson: Free trade and deregulation make it easy for us to do that now. We can locate in Buffalo and still serve the transborder market here in Ontario.

Mr. Mackenzie: That is exactly one of the things that bothers me. The other thing, in the same general area, is that you are making a major case for reimbursement for the loss of value: your licences, in effect. You want a 20 per cent tax break over five years, because, obviously, the free trade arrangements are going to make your licences worthless, and you want reimbursement for the value of those licences, which is substantial.

Are you making any similar suggestions for reimbursement for workers who may or may not also suffer losses in Ontario as a result of this agreement? You obviously want to make sure you are reimbursed for an obvious loss you are going to have. There are people who will make an argument that there are some obvious adjustments and losses people are going to have. I do not see a similar proposal here about who should carry some of the cost of that.

Mr. Sanderson: I certainly think the industry would believe that the government has a role to play in any job displacement that is going to result.

Mr. Mackenzie: It should be the government which plays that. Once again, it is a call on our tax dollars, which we are obviously going to be reducing substantially if we meet your request.

Mr. Sanderson: If I could just come back to your first question, it has something to do with what we were speaking about. If this government is

looking for new revenue sources, we estimate the longer combination vehicle would save transportation costs in the order of \$100 million per year in Ontario. As an industry, we would be more than pleased to sit down with you and work out a sharing arrangement on that.

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Mr. Mackenzie: I have been here only 13 years, but you keep coming back in cycles. There was a real campaign on in 1976 and 1977. That is when we set up the select committee on highway safety. The final results of that--and I would have to go back to the committee to look at all of the figures--was a unanimous recommendation from all members of all parties of that committee that the public was not ready for it. We would not accept the longer rigs.

Let me tell you it is one of the items, probably third or fourth on the list, that I get letters and calls about from drivers on the highway today, who simply do not want to see them. Yet, I see this as another opening for your industry, with all due respect, to come at us so that you can be competitive once again, that you need the larger rig, something that up until now at least has been rejected in Ontario, to help you meet the costs of this free trade. I really have difficulty seeing all of the benefits as we get into the costs in this area.

Mr. Sanderson: Let me say that there is, and we recognize, a public perception about the safety aspect. I do not want to dwell on this very much except to say that this industry wants safety as well. Perhaps the picture that is being painted is unfair. If you check the experience with longer combination vehicles in the four other provinces and the 18 states in the United States that use them now, you will see that they have an impeccable safety record.

What we are asking for is very controlled use of longer combination vehicles on certain highways, under certain conditions, at certain times of day. A lot of the fears I think people have, that these vehicles will be running haphazardly on the roads, are simply false. That is not what we are suggesting at all.

Mr. Mackenzie: Your use of the words "public perception" may be wrong. This is an interesting one, because the group before you also told us the public perception that some companies were not paying any taxes was an unfair one, essentially because they had losses in previous years. I think the chap from Hudson's Bay told us, sure, they had not paid taxes in the last three years, but it was because they had had losses the previous couple of years in their business. I think the same question stands. An ordinary worker cannot write off loss of income because he lost his job as a result of a plant closing or something. Even if he gets a new job and is getting half as much, he cannot write that off on his taxes. This perception is an argument we are hearing increasingly, and I am a little bit amused by it.

Mr. Bradley: On the one point you made about the cyclical effect of applying for the use of these extended-length vehicles, you may not be aware that over the last four years the trucking industry has been involved in detailed research into truck safety, along with the 10 provinces, two territories and the federal government. The results of extensive computer analysis, field surveys, road surveys and track testing are just now becoming available. The group that has headed up this study, the Roads and Transportation Association of Canada, is and will shortly be presenting the kinds of vehicles that are the safest on the highways right across Canada and

recommending fairly stringent conditions for their use. We have been waiting for the results of this study. I think they will guide us all in the type of vehicles to use in a much safer fashion.

Mr. Mackenzie: They may not have been anywhere near as extensive studies, but I can recall sitting on that committee, 10 or better years ago now, having presentations from your industry in support of the longer rigs that told us almost the same thing as you are telling us today. You may have more accurate studies today, I do not know, but I think you are going to have some difficulty selling the public in Ontario on that.

Mr. Sanderson: We recognize that and I would be pleased to provide you with any up-to-date information we have. I would like to relate a story I heard recently. I believe it was in the state of New York, where they recently conducted a survey of the public and said, "Do you want longer combination vehicles on the New York State Thruway?" It came down a resounding no. Of course, they had already had them for about eight years.

Mr. Harris: On the loss of operating authorities, I have a lot of sympathy, as I said before. I do not think it is fair for the government to change the rules in mid-stream and not allow you to depreciate that asset you have paid for because the government has changed the rules and said, "It is now worth nothing." I hope the committee generally shares that concern, regardless of what other things it thinks the government should be doing.

On the whole tax structure, I am not sure I understand 100 per cent everything you are saying, but let us talk about the fuel tax, the tax on diesel fuel. Somehow or other we have got to pay for the road system and the trucking industry is surely, in my opinion, increasingly using the road system. It appears as though trucking is becoming far more attractive over rail and many other forms of moving goods. The industry is expanding.

I think I understand your concern. If the fuel taxes are higher than in the United States, the implication of that, you are pointing out, is that to carriers, be they US or Canadian carriers, it would be more attractive for them to use US roads. I do not know how we solve that problem but one way or another, do you agree with the principle that the user should be paying for the highway system?

Mr. Sanderson: We do agree with that and we believe we pay handsomely.

Mr. Harris: Yes.

Mr. Sanderson: As you know, in this province we do not have dedicated funding for the roads and highways. If this government were to come to us and say, "Look, we agree with you that the roads are in need of significant repair and we are sorry but that is going to have to come out of your hides," well, that is a little different story from increasingly adding to the diesel tax and seeing it go into a general revenue fund. This industry would find that we would be amenable to discussing a higher tax if we knew that money was going into roads.

Mr. Harris: Well, you are asking for another \$300 million a year, more than you pay in diesel raises in a year; that is just the increase. Do you have any estimate of the usage of the road system, how much of the road



system is used by trucks? Is there any weighting factor for how that depreciates the highways as opposed to vehicle traffic, car traffic?

Mr. Bradley: I do not know that there is any formula for that. There have been numerous studies across the country. The one thing that we are aware of is that the Canadian Automobile Association does an annual review of the taxes collected for both truck and automobile use in each province and then compares that to the amount spent by that province on the construction and maintenance of highways and everything that goes into highways. Invariably the situation in Ontario is that the revenue collected by the government far exceeds the amount spent in the budget on highways and associated properties. It is our view that, overall, all of the users of the highways are more than paying for the maintenance, repair and construction of highways.

What the situation is between ambulances, the military and the auto and the truck is a little harder to evaluate. The difficulty on top of all this is that the federal government comes along and adds four cents a litre on top of all of the existing structure--

Mr. Harris: I understand that.

Mr. Bradley: --with none of that money coming back to the highways of Ontario. Those dollars are, I think we have estimated, something like in excess of \$2 billion that has been collected so far in Ontario, and none of those dollars have been returned to Ontario highways.

Mr. Harris: But other than routing of both companies, the amount of tax on diesel fuel, wherever it comes from, is equal for American trucking companies and Canadian trucking companies. It is the routing that--

Mr. Sanderson: That is true. When a US trucking company operates within Ontario, it pays provincial tax on a prorated basis. That is true.

Mr. Harris: There is a difficulty in that if you decide to shift to a US base, once again for other reasons, and you are operating vehicles, let us say out of Detroit into Ontario, you do not pay the four cents a litre federal tax. There is no mechanism imposed by the federal government to collect that tax, so you are exempt from the four-cents-a-litre tax. If you operate from a Canadian base and go into Detroit, you pay all the way down. There is no credit given for US operations and you have to pay on every litre you load in Ontario. There is a disadvantage there, depending on your base, of four cents a litre and there is no way around that.

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Mr. Harris: But if you buy the fuel in Ontario, you pay it, do you not?

Mr. Bradley: You pay it.

Mr. Harris: So if you short-haul, if you make sure you always fuel up in the US, you do not pay it.

Mr. Bradley: The average truck has 200 gallons of diesel fuel and that is 1,600 miles, so almost any truck coming from the United States, if it fuels at the border on the US side, can go anywhere in Ontario and go back over the border before he has to refuel again.



Mr. Harris: Do you have any estimate of toll roads, of what tolls are collected in the United States? I do not travel a lot but certainly when you get into the United States, a lot of those roads are toll roads.

Mr. Sanderson: I do not have those numbers but we can certainly try to find them for you.

Mr. Harris: Whether that offsets the cheaper fuel by travelling through there, I do not know. I guess it depends.

Mr. Bradley: Usually there is an alternative interstate route that is a nontoll route in each state, but there are certainly a number of toll roads such as the Pennsylvania Turnpike that predated the national highway grid system.

Mr. Harris: But most trucks would not take the alternative routes, would they?

Mr. Bradley: If there is sufficient saving in time, they would, yes.

Mr. Harris: In time?

Mr. Bradley: Time, dollars and miles; it all adds up.

Mr. Harris: I assume it would not be in time.

Mr. Bradley: There might be. They would certainly take a toll road if there was a saving in time.

Mr. Harris: That is what I meant.

You were talking about stage 1 tax reform. Where were you talking about the US truck coming into Canada versus the--is that under stage 1?

Mr. Sanderson: What I was saying was that under federal deregulation now, you can operate a transborder operation from either side of the border. As long as we are at a tax disadvantage, there will be an incentive for Ontario-based carriers to look at setting up south of the border.

Mr. Harris: I am sorry; actually it was stage 2. I understood the stage 1 problem. The stage 2 problem I am not sure I follow exactly.

Mr. Sanderson: It is a difficult point. What they are saying is that with the new national multistage sales tax, whatever form it takes, international outbound trucking movements from Canada would be taxed, but international inbound movements from the United States would not be taxed.

Mr. Harris: International movements from Canada to the United States would be taxed, but it would be taxed for US-based carriers as well.

Mr. Bradley: No. This is extremely complicated. I might say we spent at least three days in detailed sessions with the federal minister and his staff on this question.

If the goods are handled by a US carrier that is under US tax law, then this stage 2 tax reform cannot apply to him under the Canada-US tax-sharing

agreement, so the Canadian government has no ability to force a US carrier to charge this tax.

Mr. Harris: Your recommendation then is that the tax not apply to anything transborder?

Mr. Bradley: That is right. The difference would be that a US carrier then could publish his rates without the tax, whereas the Canadian carrier's rates, if the estimate is 12 per cent for this tax, would be 12 per cent higher. While in the long run it tends to even out, in the short run the traffic manager, looking at his transport bill, would, we think in all cases, choose the US-based carrier and that would have a profound effect on Canadian carriers.

Mr. Harris: I think I understand the problem it is creating. There are two things here, your corporate income tax rates and then the vehicle depreciation. On the corporate income tax rates, you are asking Ontario to parallel the US rates. I guess it would be more desirable, from a Canadian point of view, if all of Canada got its act together.

Mr. Bradley: That would be very appropriate.

Mr. Harris: As opposed to Ontario. In effect, I presume if Ontario paralleled the US rate, then all the other provinces with the exception of Quebec--

Mr. Bradley: There are some provinces that are lower in cost from a tax point of view, but certainly this is not a problem unique to Ontario.

Mr. Harris: What should the depreciation be? I see what it is. What does the industry say it should be if it was going to be equal?

Mr. Bradley: Identical to the US situation.

Mr. Harris: I guess I am asking more along the lines of, what is reasonable? Do you write those tractors off in four years?

Mr. Bradley: That probably varies with the firm and the type of service it is in. In our company we depreciate tractors over six years and trailers over eight as a normal period of depreciation. That is not particularly the problem. The problem is the tax treatment of the asset and the effect on cash flow and current net in each period. It has a very strong effect on equipment leasing rates and ultimately on where you buy your equipment.

We believe that this factor alone will cause almost every international carrier now based in Canada to move a part of its operations to the United States. I can speak very affirmatively for our own firm, having been down in the United States last week looking at the possibility of establishing a US operation which would allow us to take advantage of this tax factor. This is so significant that any carrier that waits too long before looking at that will be out of business, because this creates a very significant cost advantage for US carriers.

Mr. Harris: Why is the US at the four and we are at four and six?

Mr. Sanderson: That is a good question. In fact, something a little strange happened there. With tax reform, you are supposed to be talking about

decelerating depreciation schedules and that is certainly what Reagan set about to do in the US in the early 1980s. We do not really know why and I am not sure the trucking industry in the US knows why, but the US trucking industry in fact got an acceleration back in the early 1980s when they went through tax reform down there, so things got better for them and worse for us even since the 1980s US tax reform initiatives. Good lobbying, I guess; I do not know.

Mr. Harris: But in your case in the industry, you use six and eight as more realistic for your own budgeting purposes?

Mr. Bradley: In terms of the use of the equipment and how long it lasts. It may be that equipment built now in the United States probably will not last as long as if you bought equipment that was built five years ago in terms of the weight and the strength and the way it is built. The trailers probably are not built for such a long life as they were five or 10 years ago.

The effect on this is compounding, though, because once you transfer part of your operations to the United States, to the degree that you profit on those operations, to bring the profits back into Canada you are faced with a withholding tax. What you do is invest those profits back in the United States and use those to compound your investment in the United States, so it just serves to drain profits away from Canada and cause even greater investment by Canadian companies in the United States in trucking or other businesses.

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Mr. Harris: Do you know what discussions are taking place between Canada and the United States on this through the free trade negotiations or through deregulation?

Mr. Bradley: On this particular item? I have not heard of any at all. We have certainly had some discussions within Canada with the federal Department of Finance. We know they are looking at the problem. They understand it is a problem. It was a problem that may not have been discussed under the free trade discussions because there was certainly no difficulty in Canada in meeting this. I do not know whether an objection was raised to that level in the United States or not.

Mr. Harris: I had better let somebody else up.

Mr. Chairman: Supplementary to the question that Mr. Harris asked a minute ago, your main competition in Ontario trucking is America as opposed to other provinces, right? I did not misunderstand that, did I?

Mr. Bradley: I would say that the industry is looking at the north-south business as being the growth market, and five to 10 years from now it will be the most significant market. Looking at the US market is sort of compounded by deregulation when we are seeing new faces and new applicants from the United States every day. We are certainly becoming much more aware of the US, and the free trade situation is saying to us that we had better start looking at trucking as a North American operation rather than an east-west or local operation here in Ontario.

Mr. Neumann: First, I would like to understand what the Ontario Trucking Association is. What membership do you represent here today.

Mr. Bradley: We represent 900 companies throughout Ontario. These



are comprised of approximately 604 hired carriers, carriers who haul other peoples' freight. In addition, we have approximately 20 private carriers, companies that haul their own freight, and then we have approaching 300 that we call allied trades. These are companies that sell equipment or services to the trucking industry.

Mr. Neumann: What percentage of the industry belongs to your association?

Mr. Sanderson: I would say that, if you look at it on the basis of revenue, it is a difficult thing to estimate, but it is probably in the order of 70 to 80 per cent of total revenue that we represent. There are a lot of one-person, one-truck operations, independent contractors and what not, that do not fall under our association.

Mr. Neumann: Your organization is not the only one that appeared before the committee expressing some concern about the condition of the transportation infrastructure in Ontario.

Which is more important to you, reducing the deficit in the Ontario budget or putting money into repairing and rebuilding the road structure?

Mr. Bradley: That is always a difficult question and I guess that is something you gentlemen have to weigh. Our basic position is that without keeping the roads up, at least to their current standard, and without allowing for the kind of industrial and individual growth that is taking place in Ontario, we begin to sacrifice our ability to remain cost-competitive in trucking in Ontario with Ontario industry so dependent on the cost of transportation of manufactured goods.

The impact over a period of time will be to begin to set Ontario back in terms of its competitiveness with other areas. We think, particularly under free trade, that is going to be very important to Ontario industry and certainly to the trucking industry.

Mr. Neumann: Has your association ever done an analysis of the trailer van market and whether there is competition in the Canadian industry?

Mr. Bradley: As a carrier, we have found that there is a fair degree of competition. In other words, when we go to replace our fleet each year, and we are talking in terms in excess of 400 to 500 trailers a year just to replace our fleet, we do get very competitive quotes from Canadian industry.

However, what we see down the road, particularly with the impact of the US capital cost allowance, is the tendency for us to look at buying trailers in the United States in the future. We are in fact, as I mentioned before, currently in the market to lease or buy some trailers for establishing more extensive operations in the United States. Those trailers will come from US manufacturers, not from Canadian.

Mr. Neumann: I have a particular concern in this because of (inaudible) in the city of Brantford, a very strange decision of the federal government to force them to divest, even though the combined company that would have been created is only four per cent of the North American market, and we are heading into free trade.

In the concluding part of your brief you indicated that you have three objectives for the 1988 Ontario budget: to ensure stable, sustainable economic



growth; to maintain and enhance the competitiveness of Ontario industry; and reform of the Ontario tax system consistent with federal initiatives. Yet there seems to be some inconsistency. Perhaps I misinterpreted your brief on that last point that you were suggesting that if Ontario cannot persuade the federal government on some issues, they should take action on their own.

Mr. Sanderson: That is right. I guess we could have worded that, "Ontario should take the lead in addressing tax reform."

Mr. Neumann: If we cannot get consistency, we should still look for changes on our own.

Mr. Sanderson: That is right.

Mr. Neumann: So that "consistent with federal initiatives" is the less important part of that third statement.

Mr. Sanderson: Well, consistent with federal initiatives in so far as the federal government has made moves to lower corporate tax rates, things like that.

Mr. Neumann: On point 1, "insure sustainable economic growth," what is your economic analysis there? Do you feel that the kind of growth we have enjoyed over the last five years is sustainable over the next five?

Mr. Sanderson: Probably not. We have been growing at a fairly rapid pace, but it appears from the numbers that we get from the Ministry of Treasury and Economics now that we are on a downward trajectory instead of stable growth on an upward trajectory. We think that to increase taxes now would run the risk of choking off economic growth in the perhaps risky times that we are going to see later in 1988-89. So we believe that while the budgetary situation, the fiscal situation in the Ontario government now is relatively healthy, it affords you some leeway in terms of lowering taxes that will maintain the current recovery.

Mr. Neumann: Yet you would favour increasing taxes if they were dedicated to road construction.

Mr. Sanderson: We would talk about that. As I say, currently the government of Ontario does not dedicate tax dollars to anything, and I think that would be a major departure. If the government were serious about that, we would certainly sit down and discuss it.

Mr. Chairman: Thank you very much for assisting us. You have covered a lot of areas that we obviously have to grapple with.

Mr. Sanderson: Thank you. We look forward to your report.

Mr. Chairman: Our very last presentation before we write our report, which is strategically placed on our agenda, is from the Ontario Public Service Employees Union. We have Sean Usher, director of the research education campaign, and Lukin Robinson, researcher. We received exhibit 36 on February 16. It is in two parts, and we have extra copies here if members did not bring theirs. Mr. Usher, perhaps you can lead us through the first document and then entertain some questions.

## ONTARIO PUBLIC SERVICE EMPLOYEES UNION

Mr. Usher: Thank you, Mr. Chairman and members of the committee. The Ontario Public Service Employees Union welcomes the opportunity of appearing before you in your prebudget consultation. We represent over 90,000 public sector employees in Ontario, of whom 65,000 are directly employed by the provincial government. The other 25,000 work in various public sector agencies and institutions involved in education, health and social services, and 54 per cent of our members are women. We have a vital stake in what happens to the public sector in this province and are no less concerned with what happens in the private sector.

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Our submission today consists of two parts. Part 1 presents our views on a number of issues which are of continuing concern to our members in their efforts to serve the people of Ontario to the best of their ability, and part 2, which will be handled by Lukin Robinson, to my left, examines the proposals for tax reform put forward in June 1987 by the federal government, with special attention devoted to proposed changes in the sales tax.

We believe it is important for the Ontario government to oppose proposals which are retrogressive and to formulate alternative proposals free of the grave faults which our brief endeavours to explain.

Looking at productivity in the public service, the Ontario Public Service Employees Union noted with interest that Mr. Nixon's first budget in 1985 affirmed that the 1981-85 decline in the number of public servants in relation to the growth of Ontario's population demonstrated "increasing efficiency" in the public service. We offer an alternative and, we think, more meaningful way of showing the rise in productivity of our members by contrasting budgetary expenditures and the size of the public service.

You have a chart in front of you. It is apparent at a glance that Ontario's budgetary expenditures have grown substantially while the public service complement has stayed within the same narrow band, actually falling in four of the past seven years. On the face of it, the figures suggest that our members have increased their productivity to a prodigious degree. Whereas the provincial government spent \$236,000 per employee in 1981, the amount had climbed to \$425,000 per employee in 1987.

OPSEU appreciates that there is more to the relationship between the government's spending and its employment than the delivery of ever-bigger bangs for a static number of workers. One reason for the relatively constant size of the civil service is the contracting out to private sector organizations of much of the work our members used to do. We are against such privatization. We are convinced that the supposed savings to government when important services and functions are turned over to private enterprise will be more than wiped out by the long-run costs of inadequate and unsafe service delivery by private sector organizations, including profit-driven business firms, and we deplore the increased risks which contracting out imposes on client groups and the community at large. Sad examples of that in the very recent past, particularly here in Toronto, relate to the halfway houses for people released from penal institutions.

We acknowledge, too, that the rise in the productivity of government workers has been assisted by investment in computers and other so-called labour-saving devices. But while the Treasurer has been paying invoices from

computer companies, Ontario government workers have been paying as well--in the time needed to acquire new skills, usually on the job; in stress as the workplace is transformed; and in eyestrain, headaches and physical strain as they adjust to new office environments.

It is important to look more closely at the employment side of this increasing government productivity. We have a table on page 3 that shows there has lately been a significant shift in the composition of the government workforce. From 1981 to 1986, the number of classified public servants remained relatively constant at 81 to 82 per cent of the total, but in 1987 there was a sharp drop in the number of classified public servants and a corresponding rise in the unclassified, with the result that the proportion of classified public servants in the total suddenly fell to less than 76 per cent. This has occurred since the new government took over.

We are reluctant to assume that it is the beginning of a long-term trend, but on the contrary, we emphasize that the 3,225 unclassified staff added between 1986 and 1987 should be transferred to the classified service and thereby be given security of employment as quickly as possible.

Now turning to the tax burden, in 1974 personal income tax raised twice as much revenue as corporation tax; 18 per cent compared to nine per cent. By 1987 personal income tax raised over 2.6 times as much revenue as corporation tax. The relative importance of personal income tax has grown steadily during Mr. Nixon's three years as Treasurer, from 25 per cent in 1985 to 29 per cent last year. Corporation tax, by contrast, has grown much more modestly, from 10 per cent in 1985 and 1986 to 11 per cent last year. Evidently, during the mid-1980s boom, Ontario's tax system has leaned more heavily on wages and salaries than on corporate profits.

The regressivity of Ontario's tax system remains deplorable. The government has not made good on its pledge to eliminate Ontario health insurance plan premiums. It is striking that they contribute almost half as much to provincial revenues as does corporation tax: five per cent compared to 11 per cent in 1987.

Ontario has not done enough to reduce the tax burden on low-income people. Instead, the Treasurer has benefited from the large income tax grab for which the federal government has been responsible since 1984. As we argue in our submission on tax reform, the changes now in prospect will make things worse.

On social assistance, the Ontario Public Service Employees Union urges that appropriate funds be earmarked for needed enhancement of social assistance programs in the forthcoming budget. The report of the Social Assistance Review Committee can be expected to entail additional expenditures, running perhaps into several hundreds of millions of dollars if SARC responds objectively to the overwhelming evidence of deprivation that was presented during its hearings.

Copies of OPSEU's submission to the Social Assistance Review Committee, Social Assistance for Today and Tomorrow, presented in March 1987, are appended to this submission. OPSEU's members involved in delivering existing social assistance programs, especially welfare field workers, know about the mounting scale of human need and the inadequate or retrograde nature of the provincial government's response, such as the misguided effort to integrate family benefits assistance and general welfare assistance programs at the municipal level.



The deficiencies of our social programs impact harshly upon our members, who carry the burden of impossibly high case loads and suffer emotional drain as well as physical exhaustion and, not infrequently, danger that such work loads entail.

We all know that Ontario's social assistance system cannot be fairly and effectively revised on the cheap. The right-wing response will be that substantially increased social spending will add to the so-called burden of government spending. The real burden is the weight of poverty, disability, illness and despair that our inadequate social spending fails to relieve. That falls most directly upon the poor, but our whole society suffers from the waste and shame that is represented by our neglect of those most in need.

Other far less obviously necessary expenditures somehow manage to be made even when they greatly exceed budgeted amounts. We refer in particular to the sharp 1987-88 rise in OHIP payments to doctors, up by \$356 million over last year and by \$103 million above the budget estimate.

There are other urgently needed expenditures. Ambulance services: Privatization of ambulance services has condemned the residents of many communities to substandard ambulance service as well as fomenting totally avoidable labour disputes and service disruptions. Private ambulance companies are entirely funded by the Ministry of Health, which imposes strict budgetary constraints on operators.

A number of OPSEU bargaining units are under collective agreements with these operators which actually require ministry approval of wages and benefits, yet those wages and benefits themselves undercut the rates negotiated between OPSEU and the ministry for the ambulance services which it directly maintains. This is an absolutely classic case of the government, as the real employer, refusing to sit at the bargaining table while constraining and manipulating the nominal private employers with whom the union must deal.

A public inquiry into ambulance and emergency health services is at present under way. The inquiry's report will soon be released. When the report becomes available, we shall be making representations to the government to contribute to the long overdue rationalization of ambulance services to bring all areas up to an acceptable standard of emergency health transportation.

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A word on the Ministry of Labour's health and safety inspectorate. When government's performance is under attack, it is OPSEU members who often catch the first flak. The Ministry of Labour inspectors in the occupational health and safety division have been strongly criticized over the serious deficiencies in the application of Bill 70 and have been unfairly obliged to carry the can for an obviously bad situation which is beyond the control of their capacity to improve. We of course hope that the current review of amendments to the act will greatly improve the law, but even the best law is bound to fail unless adequate resources are allocated to ensure its effective implementation.

There are several serious deficiencies in the scale and direction of the resources which are now applied. Inadequate training provided to inspectors deprives them of the technical skills, and therefore the confidence, necessary to understand and protect workers from the enormous range of complex hazards in the workplace. Investigative skills cannot be acquired without rigorous and lengthy training. Handling of designated substances in particular requires specialized instruction.



Inconsistent policies with respect to application of basic provisions in the act have placed inspectors in an impossibly difficult situation. Staffing has lagged below complement levels, which are themselves patently insufficient to apply the act within registered workplaces, let alone extended over the full range of locations to which it supposedly applies.

Corrective measures taken so far have been inadequate to deliver regular inspections on an appropriate cycle. Enforcement and prosecutions remain seriously deficient, with the efforts of inspectors not being adequately supported by the legal services branch or at senior levels of the ministry. Inspectors' discretion has been consistently narrowed by branch management. It is urgently necessary to expand the Ministry of Labour's spending so as to make a reality of the act's promise of safety and health for all Ontario workers. That promise can be kept at a modest financial cost.

Political will is needed to lift the Public Service Act's restrictions on the political rights of civil servants, including the oath of secrecy, which gags the government's own employees when they seek to reveal wrongdoing within government. Action in this area will not require any more spending; rather, it is likely to save money.

On the Crown Employees Collective Bargaining Act, Ontario's labour law provides that workers have the right to negotiate working conditions, such as those affected by the introduction of new technology. This right is specifically denied to the government's own employees by the terms of the Crown Employees Collective Bargaining Act. That act reserves the decisions about introduction of office automation and other expensive technology entirely to the employer. It is an obvious unfairness. We argue it is liable to inflate the cost of such investment beyond what is really needed, since it is surely obvious that the perspective of the workers who actually use machinery is one of the best ways of testing its efficiency and effectiveness.

New technology is just one of the areas that are off limits. Our members are absolutely prohibited from bargaining over their own contributions to the public service superannuation fund. We raise the pension issue here because it is important to legislators to understand that the pension funds, which are such an important source of savings for provincial borrowing, are collected on an unfair basis. OPSEU members do not want to be in a position to set our own pension entitlements. In this respect, we are in the same position as MPPs. We are simply asking to be given the right to sit down with our employer and negotiate them. In a press conference on February 15, President Clancy issued a short speech, which I will make available to you, on this subject.

We want an end to CECBA's blanket restriction on the right to strike, its unfair treatment of part-time workers and its ludicrously broad denial of bargaining rights to one government employee in four.

A word on overstretched and inadequate government facilities. OPSEU's members know at first hand that many government facilities are seriously overstretched and in various ways inadequate to their original or current loads. These impact severely on our members and on the members of client groups who must use them. We have repeatedly raised the chronic overcrowding in jails as a source of severe occupational stress for correctional officers and which impose unacceptable standards for the confinement and rehabilitation of prisoners.

Psychiatric workers and patients must work and live in substandard conditions at facilities which are old, some of which have been recognized to

require complete rebuilding. The Attorney General (Mr. Scott) has acknowledged that Ontario's courthouses are disgracefully cramped and inefficient. We also deal with serious building deficiencies such as the so-called sick building in Sudbury.

These and many other deficiencies in the facilities which the government owns and runs require a substantially increased program of capital spending. We have indicated all of these to various government departments over time, in particular to the Ministry of Labour and to Management Board of Cabinet.

In conclusion for this section, I appreciate the opportunity to submit our views on the forthcoming Ontario budget. At the end of our presentation, I will welcome your questions, but now I would like to hand it over to Mr. Robinson for a brief overview on the tax reform and its effects.

Mr. Robinson: Since that part of our submission is rather long, I will only summarize it. What I am dealing with are the proposals by the federal government to change the federal income tax system. This has an effect for Ontario, first, because the personal and corporation income tax in Ontario are reflections of the federal personal and corporation income tax; second, because the province has been invited to take part with other provincial treasurers and the federal Minister of Finance in redesigning the sales tax. Consequently, what is done at the federal level will greatly affect the citizens of Ontario and the revenues which the government of Ontario is likely to collect and the distribution of the burden of those revenues.

Our overall finding is that the effect of the proposals for tax reform presented by the Minister of Finance will be to redistribute the tax burden from direct taxes to indirect taxes and from corporations and the rich to low-income and middle-income groups.

As far as personal and corporation income taxes are concerned, I am not going to say very much, and what we have included in the brief is relatively short. I think the most important point we make is that the overall effect of the changes in the personal income tax is not to make it more progressive and possibly to make it less so. For some people, it may increase their taxes at high incomes more than it will increase the taxes or decrease them at low incomes; for others, it will be the other way around.

Because the proposals are somewhat complex, it is difficult to know the overall effect. If you take the figures submitted in the government documents, the overall distribution of the tax burden by income level would not be changed very much.

Notwithstanding that, however, the federal Liberal members of the committee of the House of Commons which examined these two aspects of the proposals concluded very bluntly that the rate structure that is proposed, the three new rates instead of the present 10, is, as they say, blatantly unprogressive. Not only is it unjust to middle-income earners; it also provides upper-income earners with all too generous tax reductions. If that is the effect of the changes as far as the federal portion of the tax paid by Ontario taxpayers goes, it will have the same effect for the portion they pay to Ontario.

The changes to the corporation income tax are not much better. They have been examined in great detail by a lot of experts who appeared before the committee of the House of Commons which looked into that, and in this brief we say only a few things, make a few remarks. The point I think is important,

however, is that it is incumbent on the Treasurer of Ontario and therefore, on the government of Ontario, to look at these proposals, again, not only in terms of what Ontario citizens are going to pay as federal taxpayers, but also as provincial taxpayers.

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When it comes to the sales tax, those changes are still under debate. They can be changed. If the conclusions of the research that we have done are correct, they should be changed. The main points that we found about the changes to the federal sales tax are the following: first of all, the documents submitted show that, of the sales tax now levied by the federal government, 49 per cent is levied on what are called inputs and paid by corporations, 49 per cent is levied directly, if you will, although they are indirect taxes, on the citizenry as consumers and two per cent is levied on what are referred to as "other final users."

That is really rather striking, because I think most people have the idea--and I certainly had the idea before I read these documents--that all the sales tax paid to the federal government is, in fact, paid out of the pockets of individuals whenever they buy any consumer goods on which the tax is levied. The fact that this is not so is the starting point for the change which the minister proposes and, incidentally, the starting point of the criticism of those changes made in this submission.

What the minister proposes to do is to exempt all the businesses that now pay 49 per cent of the sales tax and load that entire amount on to individuals and households as consumers. So, there will be an enormous shift of approximately one half of the sales tax from corporations which pay that half now, to individuals who will have to pay that half in the future, so that, as a minimum, the load on consumers, individuals and households, will be twice as large as it is today.

The government argues in its white paper that if corporations now pay the tax and in future do not have to pay the tax, they will reduce prices accordingly. They do not offer any evidence in support of that assumption. It is purely a matter of faith, on the assumption that competition will prevail and that in so far as costs go down prices will go down likewise.

Anyone who has studied the price behaviour of corporations, and especially manufacturing corporations where concentration is fairly significant, to put it mildly, knows that is unlikely, to say the least. If the proposition or the assumption in the white paper was submitted, for example, to John Kenneth Galbraith, I think he would laugh so loud that the echo would reverberate throughout this building.

I think, at the minimum, the assumption is questionable. When one half of the sales tax burden of today is transferred from corporations to individuals, there may be some small amount of price reduction to compensate for the increased burden, but how much compensation there will be nobody knows. The white paper does not say. The government is not suggesting any steps to find out, let alone to make sure that the benefit of being exempted from the sales tax is, in fact, passed on. So, we have to assume that most of it will not be and that the additional burden loaded on to consumers will amount to a net increase.

The figures we found in the government documents indicate that will mean an increase of some \$8 billion in sales tax paid by Canadian consumers in



1989, increasing thereafter at a substantial rate. So, right off the bat, the changes to the sales tax are extraordinarily regressive in shifting the burden from corporations to individuals. That conclusion is explained in the tables on pages 8 and 9 of our submission and then again at some greater length in chapter 2.

The other principal finding is that there is a study presented by Statistics Canada of family expenditures. Actually, it is the expenditures of individuals and families--in other words, all households--in 1984. That study shows the way in which households distribute their expenditures depending on their income, the different levels of income. From that study, it is possible to find out what percentage of household income goes to food, clothing, this, that and the other thing, as well as to services and taxes.

The result of looking at that table and analysing it from the point of view of these tax reform proposals is summarized in the table that faces page 27 of our submission. What you find there is that the proportion of income that is spent on the goods which are at present subject to the sales tax declines as income rises; not regularly, but on the whole it does.

Then we separated, in addition, the proportion of income spent for clothing and found, somewhat surprisingly, that the percentage of income spent on clothing is between five per cent and 5.5 per cent more or less constantly over the whole range of household income from the bottom to the top, with the result that if clothing were to be included in the new sales tax base, the new tax would not be any more regressive than the present one and might be even slightly less so.

Then we looked at all the other goods and services which the minister proposes to tax by way of what he calls "broadening the tax base" and examined how those expenditures varied in proportion to income. That percentage is shown in line 15 of the table.

What that table shows is that for low-income households whose income in 1984 was less than \$10,000, they spent 53 per cent of their income on the additional goods and services which the minister proposes to tax. That percentage falls consistently as income rises so that by the time you reach households with incomes of \$50,000 and over, those households spend only 29 per cent of their income on these additional goods and services which the minister proposes to tax.

So the effect of broadening the sales tax base in the way that the federal government proposes is outrageously regressive. The tax burden on consumers, which in any case will be multiplied by two as a very minimum, will at the same time become very much more regressive than it is today.

Furthermore, the minister has said that he is not satisfied with merely raising the same amount of revenue from the new sales tax as from the present tax. He wants to raise more than that in order to accomplish a number of things which are set out on page 15.

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He wants to replace the revenues from the existing sales tax, which would broaden the base by about two; he wants to remove the personal and corporation income surtaxes; he wants to fund further income tax reductions for middle-income families; and he wants to provide a significantly enriched refundable tax credit which will ensure a greater degree of tax fairness for low-income Canadians than currently exists.



The first of those would merely shift the existing burden; the second and the third would increase the burden, the total revenue raised from the sales tax; and the fourth one would increase the revenue raised on households whose incomes were above those which were eligible for whatever enriched refundable tax credit the government may decide upon.

In order to provide some additional revenue for those objectives, the conclusion from the figures examined in this brief is that the existing rate of sales tax, which effectively, at the consumer level, amounts to about 7.25 per cent, would still have to be about 7.25 per cent on a tax base which is about 2.7 times broader than the present base and which, as the figures show, would be very much more regressive than is the present tax.

If you look at these proposed sales tax reforms from the point of view of equity, the minister is telling us that the tax system which he proposes would be fairer. Our finding is that it would be very much less fair. In fact, it would be so much less fair that the conclusion is, if this is what the minister calls tax reform, we would prefer a little bit of nontax reform.

Because the provincial Treasurer is being invited to participate in these talks, it seemed to us important that you, as members of this committee, and the Treasurer in particular, should be aware of what the proposals imply from the point of view of equity and should definitely not accept them. You should object to them and endeavour to formulate alternative proposals which are not subject to the faults and criticism our study has elicited.

That conclusion is stated at the end of the brief, essentially, on page 47.

Mr. Chairman: Thank you very much. You have given us a lot to concern ourselves with. I see hands from Mr. Neumann, Mr. Harris, then Mr. Mackenzie.

Mr. Neumann: Have you reviewed your findings with officials in the federal ministry?

Mr. Robinson: No.

Mr. Neumann: Is this the first presentation of your findings?

Mr. Robinson: Yes, you are the first.

Mr. Neumann: I must say, given the other briefs we have heard and the discussions we have had, it certainly is a very interesting report you present to us. We will have to, as a level of government and a major province in Canada, react to and decide what steps to take in relation to the federal tax reform.

What is your recommendation to the Ontario government? What do you think we should do? You have presented the case. Throughout this report you talk of the minister. I presume you mean the federal minister.

Mr. Robinson: Yes.

Mr. Neumann: I am asking you what you recommend to our minister, our Treasurer.

Mr. Robinson: Specifically, I really do not know, other than to resist the proposals which are before you and to formulate alternative proposals which in some way or another avoid the defects of the minister's proposals. Precisely what those should be, I am not a sufficient tax expert to know.

Since I have not seen any other analysis of the proposals which reveal the conclusions this research reveals--perhaps no one has thought about alternative proposals--I would be happy, if you are sufficiently impressed with the conclusions which this research reveals, to tell the Treasurer, "You had better get to work and formulate proposals which do not have these faults."

I think that is the responsibility, if I might put it that way, of the staff, the experts the Treasurer has in his department. If they want my advice, I am happy to give it, but I do not have any specific proposals to make at this stage on behalf of the union.

Mr. Chairman: Do you mean proposals for federal tax reform?

Mr. Robinson: Yes, that is right.

Mr. Neumann: The delegation immediately previous to yours had suggested three objectives for the 1988 Ontario budget: to ensure sustainable economic growth, to maintain and enhance the competitiveness of Ontario industry and reform of the Ontario tax system consistent with federal initiatives. I gather you are saying that--

Mr. Robinson: Inconsistent with federal initiatives, yes.

Mr. Neumann: We also heard from several delegations which talked about the concept of progressive and regressive taxes. Their arguments centred on the property taxes in Ontario, that many services have come to rely on property taxes for support.

Mr. Robinson: That is right.

Mr. Neumann: Their suggestion was that we shift some of the burden from property taxes to the provincial tax base. I guess you are saying that if we were to do that, it should not shift to the sales tax.

Mr. Robinson: Very definitely.

Mr. Neumann: Which is more regressive, the existing property tax system or this new proposed sales tax?

Mr. Robinson: The existing property tax system is probably more regressive than this.

Mr. Neumann: Than even what is proposed here?

Mr. Robinson: Than even what is proposed here. But this comes pretty close to it.

Mr. Harris: I will not dwell a lot on it, but you have piqued my interest with page 12, the so-called sick building in Sudbury. That is the provincial building there?

Mr. Robinson: Yes.

Mr. Harris: Is that related to the heating system? I am asking because I am told they are putting the same system in the Ministry of Correctional Services building in North Bay. It has been promoted by Ontario Hydro. There is some controversy among some of the government employees who have talked to me. I do not want to take too long on it because it is not really the thrust of our committee.

Mr. Usher: I am not personally fully apprised, but I can get that information to you because we have reports on that. I can get the specific information to you, but I believe it has something to do with the closed-system design.

Mr. Harris: Yes, the heat recovery.

Mr. Usher: The heating and cooling and their exchange. I believe a number of other buildings have had similar difficulties--one in the Hamilton area where the efforts to keep costs down in terms of air exchange have been one of the major problems. I believe that has now been ordered.

Mr. Harris: I do not want to take too much time on it.

Mr. Mackenzie: Shelley Martel could give you a primer on that situation.

Mr. Harris: Okay.

Mr. Usher: I will be very happy to get that.

Mr. Harris: That is not the main thrust of our committee, but you can appreciate my interest in it.

Mr. Usher: Yes, indeed.

Mr. Harris: With respect to this chart that we were referring to--I guess it is page 26--I think one of the things we should be asking the federal government or the provincial government to do--there is an absence of it--is some analysis that they have on the whole impact. What is the difference between lines 14 and 15, "Taxable goods" and then "Additional taxable goods and services"?

Mr. Robinson: Line 14 is the goods which at present are subject to the manufacturer's sales tax. In so far as those goods can be identified, which they can be pretty accurately, in the table from which--

Mr. Harris: So those are the goods that under the federal--

Mr. Robinson: Manufacturer's sales tax.

Mr. Harris: Manufacturer's tax now.

Mr. Robinson: That is right.

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Mr. Harris: And 15 is the additional taxable goods and services that would be added?

Mr. Robinson: That is right.

Mr. Harris: Can you give me some examples of what is in the additional? We have had people come before us and say it is the other way around.

Mr. Robinson: First of all, clothing; and, second, water, heating and fuel. Somewhere in this text is--

Mr. Neumann: You isolated clothing.

Mr. Robinson: That is right, but clothing is included in line 15.

Mr. Neumann: So it is line 12 within line 15.

Mr. Robinson: Line 15 is a percentage line, and the additional dollar amounts from which the percentages in line 15 are derived include clothing. Let me put it this way. All goods, other than food which is bought in stores and prescription drugs, would be taxed; that is to say, all the goods that are now taxed and all the goods which are not taxed. All the goods which are not taxed, as I understand it, are water, fuel and electricity, books, bicycles and prescription drugs, as well as clothing.

Mr. Harris: But it is the services--

Mr. Robinson: As far as services are concerned, the ones that would not be taxed are listed on page 33, and if they are not included in page 33, then they would be taxed.

In other words, there is a paragraph at the bottom of page 33, which says, "In terms of household expenditures, the following services would not be taxed"--this is from my reading of the sales tax paper--"rents, property taxes, expenditures for education, interest on personal loans, unemployment insurance premiums and premiums on public hospital and medical plans"--all of these things are readily identifiable in the survey of family expenditures--"dues to unions and professional associations, government-run pool and lottery tickets, contributions to pension and retirement funds, as well as gifts and contributions to religious and other charitable organizations, plus some other miscellaneous services and expenditures. All other services would be subject to the new tax."

Mr. Harris: This chart comes from Family Expenditure in Canada, Selected Cities, 1984.

Mr. Robinson: Yes.

Mr. Harris: Who did that?

Mr. Robinson: Statistics Canada.

Mr. Harris: They did that before the federal sales tax proposal.

Mr. Robinson: Oh, yes. The table that you have before you is based on an analysis of the detailed tables in the publication referred to. You will not find this table as such in the Statistics Canada expenditure. You have to do quite a lot of work to transform the data which are in the Statistics Canada publication to this. So you have to rely on me that it is accurate. I might as well confess right now that it is a lot easier to allow a few errors



to creep into a table like this than to make sure that there are not any. I can tell you that, since this table was put together, I have found a few, but they do not alter in any way the overall story that the figures tell. In other words, the conclusions that I have drawn--

Mr. Harris: You have not convinced me that this table is even close to being relevant. It may be, but I--

Mr. Robinson: In a sense, I suppose what it amounts to is that you have to take my word for it that the way I have put together the detailed data in the Statistics Canada publication correctly reflects the minister's proposals, or--and I would not in the least mind--you have to get someone else to go over the same ground and see if he comes to the same conclusion. If he comes to a different conclusion, let us compare notes and one or other of us may have made some mistakes. In fact, both of us might have made mistakes.

Mr. Harris: It is kind of like actuaries evaluating pension funds.

Mr. Usher: Mr. Chairman, we are very happy to offer, as we did in the analysis on free trade, to have Mr. Robinson get together with your researchers to go over this ground and verify the figures.

Mr. Harris: I think really that a lot of work has to be done because we are getting groups coming before us saying they feel the sales tax on services will be more progressive because of who they feel is buying those services, I guess. In fairness to you, they did not bring any data to support it. It seemed to be what they felt was going to be the case, but I think maybe we should be trying to get some relevant data.

Mr. Usher: Further to that, let me emphasize again that we would be very happy to get together and work the figures over, as we have done in the past. In fact, we were held to be correct before.

Mr. Robinson: I might add, incidentally, that my impression also before doing this work was that high-income households spend a higher proportion of their income on services than low-income households do. I was somewhat surprised, when analysing the data, that I found it the other way.

Mr. Harris: That is the premise you are assuming. Can I ask one question? Regardless of where the tax revenue comes from, whether it is corporations, sales taxes or incomes taxes, does the Ontario Public Service Employees Union have an opinion as to the level of taxation in Ontario? Do we have room to tax more? Are we at about the right level or are we too high?

Mr. Robinson: If you accept the present level of expenditures and their distribution, which begs a lot of questions, which are dealt with in the first part of our brief, and if you accept the fact that, realistically speaking, you cannot run multibillion-dollar deficits year after year, I think the answer is that the present level of taxation, on the whole, is probably OK. Whether it could be improved or not and, if so, how is another question. Of course, we naturally think it could.

Mr. Harris: By shifting--

Mr. Robinson: That is right.

Mr. Harris: --but not necessarily increasing the total take?

Mr. Robinson: Not by very much, nor by reducing the total take.

Mr. Usher: Your question is a very simple one. In a sense, it is a straightforward question--

Mr. Harris: I am a simple man.

Mr. Usher: --but nevertheless, the answer is somewhat complex. I hesitated to get into it at first, but I think I should now.

When you talk about levels of taxation, you have to think about the levels of satisfaction that people have socially as well as economically. I think the problem we have had in dealing with taxation a lot of the time has been that we have been concentrating on economic issues and economic values only, to the exclusion of social values in that equation. I think it has been brought home much more to people in the whole debate on free trade and in comparing ourselves with the United States, that there are social values that we hold more dearly than economic values.

You hear people referring to the health care system that we have in Canada and in Ontario as being much more equitable and much more desirable, though not perhaps as good as we would like or as perfect as we would like, than that in the United States. That is simply a tradeoff between economic value and social value.

In the context of leaning more heavily on taxation, which is economic, one has to look at the total picture of what we are getting in terms of our social and economic values. That equals our political ambience or our political system. In coming into setting a budget, I think it is very important to have this kind of forum we are having today, but it is also important to have public debate about it. If there is going to be a greater tax bite, then let us know what we are getting in the total system.

Mr. Harris: I better pass.

Mr. Chairman: Just to follow up on that, bearing in mind the predictions from our own officials that we are on a slight downturn in the economy, and going back to the economic argument, does that concern you if we were to raise taxes in those circumstances?

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Mr. Robinson: Yes. If there is going to be a serious downturn, any substantial increase in taxes would aggravate the downturn. There is no question about that.

Mr. Chairman: I do not think they are predicting a serious downturn.

Mr. Robinson: All right. A slowing down of growth is a little bit different. If you are dealing with the rate of growth, the question is how close to capacity are you and how fast is capacity growing? There are some people who are saying that notwithstanding--the rate of unemployment in Ontario is still around five per cent, I believe, or possibly a little bit higher; I do not have it right in my head. The Ontario economy is close to capacity and a slowing down of growth probably is not such a bad thing, if in fact the rate of growth approximately equals the potential growth of capacity in the next two or three years.

Mr. Chairman: On the question of your chart, there may be some feeling in the committee that even though you are our very last witness, we have not really grasped everything that we need to grasp on tax reform, so we may take you up on that over the course of the weeks and months ahead. We obviously cannot do that in preparation for this report.

Mr. Mackenzie has a question.

Mr. Mackenzie: First, I have been trying to make the argument occasionally, today even, in this committee that the broader-based sales tax approach is going to mean that lower-income families will see a bigger percentage of their incomes affected by the tax. I think your chart is the first evidence of any kind that I have seen that actually backs that up. It was a gut feeling up to that point and a point, I think, that was shared by some others, so I very much appreciate the presentation you have made to us and the chance to at least take a look at it.

If indeed you are accurate, it is pretty devastating in terms of the information that has been given to this committee. I think it would lead me to a position I was probably close to in any event, and that would be resisting tying any of our proposals or any tax system into the current federal tax reform package, because I do not think we could win, if there is any validity to this. There are a number of other concerns I have, as well.

I think we also have to take a look at whether it is a question of increasing taxes or not. I agree with you, we probably should be increasing them when times are good and not when we are starting into another downturn of whatever size. But if we are going to take a look at reforming the taxes here in Ontario, there is at least a very strong perception that they are not fair. Corporations, in many cases, are not paying anything at all. We had some arguments on that from an earlier group that was in here today, as well.

What would be your position in terms of a minimum tax that might catch some of the corporate loophole evaders, a payroll tax or a switch from property and some of the current sales taxes to a more progressive personal income tax, personal or corporate income base? Is this the approach we should be taking in terms of tax reform, or do you have some other suggestions you can give us as well? I think we are kidding ourselves if we listen to all the requests for money or all of those things we should or should not do if we are not prepared to get down to the hard position of taking a look at how we can come up with a fair tax system in Ontario.

Mr. Robinson: First of all, I think a minimum tax is a good thing. I am sure the union would support that. I do not think there is any question that corporations pay a smaller share than they should pay or could pay and have in the past paid. It is significant that in the years of strongest economic expansion in Canada, from around the end of the Second World War till about 1974, the rate of corporate income tax was significantly higher than it has been in the years since. So the argument that a decent rate of corporation income tax inhibits economic growth is certainly not supported by the record.

A payroll tax, I think, tends to be regressive, emphasis on the personal income tax as against the sales tax. If the rate structure of the personal income tax is progressive and there are not a whole bunch of loopholes thrown around, then any trade union, I think, is in favour of that. You have to pick and choose between the ways in which you are going to increase taxes, recognizing the reality which you point out, that a certain amount of tax revenue is essential if you are going to have a certain level of expenditures;



and the social needs of the people in this province certainly require a substantial level of expenditures.

Mr. Mackenzie: How about a capital gains tax? Would you reinstitute it?

Mr. Robinson: I see no objection to a capital gains tax. I have heard lots of them but none of them have convinced me, and I would be in favour of it. Personally, I would be in favour of it. I do not think the union has taken a position on it, however. I could be wrong on that.

Mr. Pollock: I just want it clarified. Are you saying that under this proposed new federal tax, food will be taxed and yet such things as lottery tickets would not be taxed?

Mr. Robinson: No. Food will not be taxed.

Mr. Pollock: Food will not be taxed?

Mr. Robinson: No. The original proposal in June 1987 was that food would be taxed, but this raised so much objection and indignation and protest that in December the minister got up in the House of Commons and said, "No, food will not be taxed."

Mr. Pollock: That is what I wanted to clarify.

Mr. Neumann: I would like to ask some questions about what is meant by "progressive" and "regressive." I understand that usually when economists talk about a progressive taxation system, what they are doing is tying the rate of tax to the income level, and a tax which has a higher percentage on income at the higher level is generally considered to be a progressive tax.

First, do you agree with that? Second, in the listing of incomes across the top of your sheet, are these gross incomes or net incomes? Third, is this the most effective way of defining what is progressive, and does a definition based solely on income really measure ability to pay as precisely as it could?

Mr. Robinson: I may take those perhaps not in the order in which you ask them. First, line 1 of the table is gross income before tax.

Mr. Neumann: Is that before deductions?

Mr. Robinson: Before deductions; that is right.

Second, the experts talk about tax equity in two ways. This is relatively recent jargon. One, they talk about vertical equity which means, as you said, that people with high incomes should pay a higher proportion of their income in income tax, and indeed in all kinds of taxes, than people with low incomes; so the proportion of income which people pay in tax rises as their income does, and how fast it should rise is of course a matter of subjective judgement. In other words, equity--vertical equity, specifically--is therefore a matter of subjective judgement, essentially.

Then there is another concept, known as horizontal equity, which says that everybody with the same income should be taxed equally. That concept of horizontal equity addresses itself to tax exemptions and tax loopholes whereby, as Mr. Mackenzie pointed out, some corporations pay no income tax, even though their profits run into the millions. And some high-income



individuals pay no income, or much less income, than they would if they did not benefit from exemptions and loopholes and whatever else you want to call them--giveaways and so on. Depending on which way you look at it, there are different ways of describing these things, but the net effect is that one person with an income of \$50,000 may pay no tax and someone else may pay \$10,000, and that violates the rule of horizontal equity.

If you are going to violate the rule of horizontal equity, there have to be very good reasons for it. Some of the exemptions probably can be justified on the basis of those reasons and others perhaps cannot, and there is an argument over each exemption. My goodness, you look at the government papers which deal, one after another, with all these exemptions, and the arguments wax hot and heavy. If you find yourself on one side of the political spectrum, you will take one position on some of these exemptions, and if you are on the other side you will take the opposite position. I do not think there is much difficulty in identifying, on the whole, where trade unions stand.

1700

Mr. Neumann: My question related to progressivity.

Mr. Robinson: Then there is the last question: Is there any better way than as a proportion of income by which you can measure ability to pay?

In theory, income and only income is not satisfactory. From my very limited knowledge, I do not think anybody has found a satisfactory way of including other things--most notably capital wealth--other than either a tax on capital wealth or a tax on capital gains, which would improve on income as the standard. But the argument for either a tax on wealth or a tax on capital gains or a combination of the two derives from the fact that income alone is not an adequate or fully satisfactory measure of ability to pay.

Mr. Harris: Having corporations pay more taxes is something I sense OPSEU would, in general, support. Do you not also maintain that corporations, whatever the tax is, are going to pass it on, anyway? Whatever their costs are, they are going to pass on? As I read your brief, I got the sense you were saying: for sure, they are going to pass them on, but if you cut some of them back, we are not so sure they are going to pass the savings on. I understand what you are saying.

Let us say, for example, that we went to 100 per cent corporation tax and did away with sales tax and personal income tax. All the tax we collected would be at that level. If that was the case, would we not also be saying it would be 100 per cent consumption tax, if they passed it all on?

Mr. Robinson: I think the question is "if." Perhaps the immediate result of 100 per cent corporation income tax is that you would not have many corporations operating in the country which imposed such a tax.

There is an argument among people who study the tax system over the question you raise. For quite a long time, the conventional wisdom was that any kind of tax, even a tax on net profit, however defined, could be passed on.

In reply to that argument, it is said that if the corporation is in a position to administer prices with a view to securing a certain percentage rate of profit on its assets, the proportion of that rate of profit which is then taxed will not affect the gross amount of profit the corporation is in a position to maximize. Subject to being reasonable in the rate of tax, that is

to say, how much you take of that maximum rate of profit which administered prices are capable of generating, it seems to me that that side of the argument is the better one, but there has been for many years a difference of opinion.

Mr. Harris: You mentioned capital gains tax. Would you be in favour of capital gains being taxed at the same rate as other income?

Mr. Robinson: Not necessarily at the same rate, but now they are not taxed--well, they are to some extent taxed, but not very much.

Mr. Harris: That rate is going to go up.

Mr. Robinson: I think so. Yes.

Mr. Harris: To 66 2/3 and then 75. One of the difficulties I have always had with capital gains is that it is not indexed. If a business in 1970 dollars invests some capital assets worth \$1 million--and forget all the depreciation--then sells it for \$2 million in 1980, as far as getting their 1970 dollars back is concerned, that is all they are getting back. Why should they pay tax on that?

Mr. Robinson: I think a fair capital gains tax should be indexed but that is a difficult thing to do. From what I know, I do not think that is technically impossible, and certainly in periods of rapid inflation that would seem to me to be fair.

For example, a capital gains tax on housing would tend to be unfair. You can sell your present house for much more than you bought it for, but that does not mean you can buy a new house for any less, relatively, than what you sold it for. In other words, if you have to have a house or if you have to have the same kind of house as the one you are selling, you are not likely to be very far ahead by selling one and buying another, because both of them have gone up in price. The capital gains in terms of the real asset which the person is going to have is not there.

Mr. Harris: Perhaps 100 per cent tax on capital gains, if it was indexed, would be fairer.

Mr. Robinson: That is right.

Mr. Harris: I do not know.

Mr. Robinson: I think you are right.

Mr. Harris: As a little businessman, it always bothered me. Is that why the 50 per cent rate? Do you know the history of it? Was it to try to compensate for that?

Mr. Robinson: That might have had something to do with it, but that has never been explicitly acknowledged, as far as I know.

Mr. Harris: Also earlier on, you talked about your concern over the deficit. Is that a concern of OPSEU?

Mr. Robinson: I would not say so. There are other people who are more concerned than we are, but it is something every realistic person knows. In the long run, you cannot run up deficits of umpteen billion dollars and not

get into a certain amount of trouble. That is as much common sense as that the earth is round.

Mr. Harris: It makes sense to me, I can tell you, but have you looked at it to the extent that OPSEU has said there is an acceptable deficit level?

Mr. Robinson: Not that I know of.

Mr. Usher: We have looked at it to the extent that in terms of our presentation to the Macdonald commission of a few years ago, we were not as alarmed as some of the other people around about the extent of the deficit in terms of reducing it, as you earlier talked about property values, to real dollars. The percentage is not alarming in terms of the same kinds of percentages years ago. This is complex, because one has to measure who holds the debt in terms of international lending and borrowing and who is likely to pull the rug when. These considerations are there.

Mr. Harris: You always have to value current benefit versus future benefit.

Mr. Chairman: Did you look at the federal budget and federal deficit as well?

Mr. Usher: Yes.

Mr. Chairman: Were they the same conclusions or different?

Mr. Robinson: The concern which has been expressed about deficits in the last three or four years is wildly exaggerated.

Mr. Harris: At the federal level?

Mr. Robinson: Yes, I would say at the federal level as well. In a broader context, the conventional wisdom or the current myth is that if the United States is able to reduce its federal budget deficit, its international trade deficit will conveniently vanish. I think that is the bunk. There may be good reasons for reducing the federal budget deficit and if the US federal deficit is reduced by cutting back on its extraordinary arms expenditures, I think a lot of people would cheer, but that might not have any effect on the US trade deficit, and to link the two in the way most people do, as an argument for cutting back social expenditures in the United States, is in my view absolutely without foundation and, frankly, outrageous.

Mr. Harris: The amount of money being paid now on the federal debt is what, 30 per cent of the budget? What is their budget?

Mr. Robinson: It is about 35 per cent, I believe.

Mr. Harris: Yes, and how much do they spend? I am not sure everybody wants this--

Mr. Robinson: Slightly over \$100 billion a year.

Mr. Harris: I am just saying, for example, had they not deficit-financed, today we would have \$35 billion more to spend on programs.



1710

Mr. Robinson: Well, no, unless you do not believe a word of what John Maynard Keynes says. Had they not financed the deficit they might have had a larger deficit anyway because of the effect that has on the economy. In other words, you cannot just subtract the deficit and say, "Let us do away with the deficit," and assume you will have the same level of economic activity and the same revenue. The deficit generates the revenue.

Mr. Chairman: Did Keynes not talk about having a surplus in good times, though?

Mr. Robinson: Oh, sure.

Mr. Chairman: And balancing it in the long run?

Mr. Robinson: If you look at the financial record of the federal government, no one is going to say it has been perfect, but the conclusion that is drawn, namely, that the deficit could have been slashed at this time or at that time, that it was feasible in economic terms--I am not talking about political terms--that conclusion is wrong in light of Keynesian economics. If you reject Keynesian economics, as many people these days do, then you come to a different conclusion.

Mr. Chairman: I have one very technical question concerning the chart on page 3. It is very similar to a chart we received this morning from Judith Andrew and the Canadian Federation of Independent Business. Their argument was quite different. She was arguing that we had been increasing the volume of our civil service too rapidly. She had the same figures you have for both classified and unclassified public service complement for the years leading up to 1987. She just starts in 1984 and she indicates this all occurred in March of that year. Then in December of 1987--I am on page 3 of this brief and page 8 of hers.

In 1986, she indicates classified 66,900; unclassified 13,300. In 1987, her figures are quite markedly different from yours. They indicate an increase in unclassified in March to 14,400 and you have it 13,300, and then, classified, she has it jumping to 69,100, which is what she is alarmed about. She indicates her source is the annual report of the Civil Service Commission as updated by the human resources secretariat. You indicate it is the Ontario budget. I expect the budget figures would have come from the human resources secretariat. Do you have any knowledge why they suddenly differ in 1987?

Mr. Mackenzie: Unless their figures are more up to date. That is the conclusion I came to.

Mr. Chairman: It is just that if your figures are right, of course she does not have any argument.

Mr. Robinson: Our figures are taken directly from the budget document, so if the budget documents are right, she does not have an argument. She or you, if you are interested in the discrepancy, should go to the two conflicting sources and tell them to get their act together.

Mr. Usher: I would suggest that perhaps the budget document source is the source that is most relied on.



Mr. Chairman: That was in May 1987, though, was it? She has obviously got a figure of December 1987, so hers may be more recent.

Interjection: We will have a look at that.

Mr. Chairman: I appreciate the very extensive work you have done in preparation for this. We may well call on you in the future to work out some of the information you have given us, because as I indicated, the committee does not really feel it has a full grasp of all the implications of tax reform at this stage.

I have been handed Mr. Clancy's statement. Did you want--

Mr. Usher: I suggested to you, in reading the brief, that I would give that to you.

Mr. Chairman: I will have it distributed to committee members.

Mr. Usher: On the question I was asked, with your indulgence, I think you will find that the figures shown in that other brief were taken at different times of the year. Ours are taken at a consistent time of the year.

Mr. Chairman: Yes, that may be the answer.

Thank you very much. That concludes all our hearings. We will meet tomorrow morning at 9:30, as agreed earlier. I hope we can start dealing with Mr. McLellan and the free trade matter right away, but that depends on Mr. McCague. We are expecting a call at some stage today. Can he be here at 9:30?

Clerk of the Committee: We do not know.

Mr. Chairman: We do not know yet. Since he is coming in especially for that discussion, hopefully that will just take about half an hour some time tomorrow.

The committee adjourned at 5:17 p.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

MONDAY, MARCH 7, 1988

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)

Haggerty, Ray (Niagara South L)

Kozyra, Taras B. (Port Arthur L)

Mackenzie, Bob (Hamilton East NDP)

McCague, George R. (Simcoe West PC)

Morin-Strom, Karl E. (Sault Ste. Marie NDP)

Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitution:

Callahan, Robert V. (Brampton South L) for Mr. Kozyra

Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

Individual Presentation:

Sharp, Hon. Mitchell W.

From the Wine Council of Ontario:

Westcott, Jan, Executive Director

From the Canadian Printing Industries Association:

Cooper, Willy, President

Bergamini, Massimo, Director, Government Relations

Morris, John, President, Consumer Printed Products Group, McLaren, Morris and  
Todd Ltd.

From the Ontario Coalition for Better Child Care:

Rothman, Laurel

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Monday, March 7, 1988

The committee met at 1:01 p.m. in room 151.

TRADE WITH UNITED STATES  
(continued)

Mr. Chairman: Good afternoon and welcome to the standing committee on finance and economic affairs of the provincial Legislature. My name is David Cooke and I am the chairman of the committee. The standing committee on finance and economic affairs is a committee of the Ontario Legislature, the purpose of which is to consider and report to the House on its observations, opinions and recommendations on the fiscal and economic policies of the province. That is a fairly wide scope.

As part of that scope, right now we are looking at the free trade agreement which has been negotiated between Canada and the United States and the implications of that agreement on the province of Ontario. The Legislature has instructed us to report back to it our findings on this agreement. As such, we have had a series of intensive hearings which started in January and continued on to mid-February. We have had a break in those hearings for the last few weeks and are resuming today.

The committee is made up of 11 members, six from the government side and two from each of the two opposition parties. We will be holding hearings this afternoon and for the rest of this week and will be seen on television today and tomorrow; another committee will be seen on television on Wednesday and Thursday. Today, through to about five o'clock, you will be watching witnesses make their presentations to the committee and the committee asking questions of those witnesses.

Our first witness this afternoon will be the Honourable Mitchell Sharp. I will introduce him in a few moments. At two o'clock, we will be hearing from Jan Westcott, the executive director of the Wine Council of Ontario. At three o'clock, the Canadian Printing Industries Association, with the director of government relations, Massimo Bergamini, the president, Willy Cooper, and president of the Consumer Printed Products Group of McLaren, Morris and Todd, John Morris. At four o'clock, the Ontario Coalition for Better Child Care, with the executive director, Susan Colley.

Tomorrow, our hearings will commence at 10 a.m., and at that time we will have the president of the Canadian Federation of Independent Business, John Bulloch, followed at 11 by the president of the Canadian Auto Workers, Robert White. At two o'clock tomorrow afternoon, the general manager of the Christian Farmers Federation of Ontario, Martin Oldengarm; at three o'clock, the National Farmers Union (Ontario Division) with Raye-Anne Driscove, general manager; and at four o'clock, a group of farmers from Watford, Ontario, near London, who will be giving us their views on general farming, dairy, poultry, grapes, vegetables, wheats and meat.

The rest of this week we will be continuing our committee hearings, and you can come and visit us at Queen's Park.



On Wednesday, March 9, Dr. Richard Lipsey, from the C. D. Howe Institute, at 10 a.m.; Douglas Matthews, from Ferritronics, at 11; at 2 p.m., Keith Hyde; at 3 p.m., the Social Planning Council of Oshawa-Whitby; and, at 4 p.m., the Ontario Grape Growers' Marketing Board.

On Thursday, at 10 a.m., Professor John Crispo of the University of Toronto; at 11 the Ontario Public Service Employees Union, James Clancy; at 2 p.m. the Ontario Forest Industries Association, Ian Bird; at 3 p.m. the International Association of Machinists and Aerospace Workers; and at 4 p.m. the Canadian Environmental Law Association.

We invite you to join us and participate as much as you can by television or, hopefully, on Thursday and Friday perhaps you can get even down to see us at Queen's Park.

I would like to welcome our first witness, the Honourable Mitchell Sharp, who is, I am sure, no stranger to anybody in Canada: a long-time public servant of this country, a former Deputy Minister of Trade and Commerce who left the civil service in 1957 and eventually made the decision to enter partisan politics in 1963, when he took on the sitting Minister of Finance, as I recall, and beat him in the Toronto riding of Eglinton and served as the Minister of Trade and Commerce in the Pearson government from 1963-65, Minister of Finance from 1965-68, Minister of External Affairs from 1968-74, and president of the Privy Council.

Mr. Sharp, welcome to the committee. I recall your career with great awe, and I recall you as being a rather formidable free trader in your career and in your position within the Liberal Party. We look forward to your presentation. Members of the committee have copies of your presentation before them. Perhaps you could lead us through it and then entertain some questions.

Hon. Mr. Sharp: Thank you, Mr. Chairman. I hope you will not mind if I correct one item in your biographical sketch. I did not beat Donald Fleming. I almost did, and he retired and I won the seat.

Mr. Chairman: Oh. My apologies.

Hon. Mr. Sharp: I do not think any of Donald Fleming's friends and so on would think I would make any statement that I had really beaten him. I almost did, but not quite. However, he retired and I became the member.

Mr. Chairman: Perhaps it was the politics of the case, being a partisan person at that time.

Hon. Mr. Sharp: I appear before you today because I was invited to do so. What I have to say are my personal views and I am not the spokesman for any group or any political party.

I am on the side of freer trade for Canada. My long experience in government as a Minister of Trade and Commerce, Finance and External Affairs strengthened my conviction that it is in Canada's interest and in the interests of peace and security that trade barriers be reduced internationally.

While in government, I resisted the more extreme economic nationalism of colleagues like Walter Gordon and Donald Macdonald. I promoted the various rounds of negotiations under the General Agreement on Tariffs and Trade that brought about an enormous reduction in the barriers to trade worldwide, including those around the United States. I devoted time and energy to promoting good relations with our great neighbour and ally to the south.

So it should be evident to the members of the committee that I am motivated neither by protectionism nor anti-Americanism when I say I have serious misgivings about the proposed free trade agreement with the United States.

To begin, let us take stock of Canada's position in the world and the current state of Canada-United States trade.

Canada is a rich country, among the most fortunate in the world. Recently, as the Minister of Finance has been telling us, we have led the member countries of the Organization for Economic Co-operation and Development--that is, the principal industrialized countries--in the rate of economic growth.

Canada achieved this enviable position by following nondiscriminatory, multilateral trading and negotiating principles. At the end of the war we decided to negotiate our way out of Commonwealth preferences and to avoid reciprocal preferences in the future, in what amounted to an economic declaration of independence. That policy paid off handsomely. With the help of other members of the GATT, the tariff walls around the United States came tumbling down, opening the American market to us, which we have exploited with great success.

As a result, a very large portion of the enormous trade between Canada and the United States is now tariff free and the average rate of tariffs that remain is quite low. Around the United States, the average rate is, I am told, less than five per cent. At the end of the war, the average rate was several times higher. I tried to find out if anybody had made any calculations, but I was unable to get a figure.

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I know it was several times higher than five per cent on the average, from which I draw the conclusion that we have got along very well without an across-the-board preferential treatment in the United States. Nor is there any reason to believe that we have to have a comprehensive preferential free trade agreement with the United States to continue to prosper, except perhaps for one thing, and that is the possibility that the United States will turn to protectionism, thus threatening imports from Canada. The proposed remedy of those who advocate a free trade agreement is, "Let's join the protectionists by getting inside the American system before it is too late."

Fear is a shaky foundation for policy. Canada would not be where it is today if our trade policies in the past had been based on fear; neither, I might add, would the United States. Protectionism cannot continue for long to be the policy of a great power seeking to lead the free world. The leading members of the administration and the United States Congress are well aware that a return to protectionism could precipitate a depression, as it did in the 1930s. All of them remember the Hawley-Smoot tariff, and they are not likely to repeat that historic mistake.

Perhaps the United States will take some temporary action to restrict imports from Canada. Is that a reason to enter into a comprehensive, permanent, irreversible, preferential trade agreement? In my view, that would be a bad bargain. Furthermore, can we be sure that the proposed trade agreement will preserve us from such restrictive actions by the United States? As I read the agreement, we did not get the guarantees we sought and we are still vulnerable.



It is contended, however, that even if all this is true, it would be advantageous to Canada to enter into the proposed North American free trade area with the United States, with all its limitations. We could, it is said, become more prosperous because of improved access to a bigger and more competitive market. This, as I understand it, is the essence of the case for the proposed agreement.

It is a serious argument, has merit and deserves the most careful consideration. From a theoretical point of view, it is difficult to contest the conclusion that the removal of barriers to trade helps to promote economic efficiency. I would not try to contest that conclusion. Some improvement in average standards of living in Canada should take place over time, although it would probably be a marginal improvement and would be accompanied by a good deal of disruption. Some industries would benefit; some would be damaged.

For these marginal economic benefits, which not all Canadians would share, there is a price to be paid. By entering into a preferential agreement with the United States, Canada would be eroding in a significant way its independence and its identity.

If the test were simply the economic effects of the proposed agreement, there would of course be even greater economic benefits for Canadians by joining the United States. There would then be no duties or countervail and antidumping penalties to worry about. We do not apply to join the United States because we want to continue to be as independent as one can be in this interdependent world. The fundamental issue raised by the proposed agreement, therefore, is the effect upon the nature of Canada and Canadian society of entering, for the first time since Confederation, into a comprehensive preferential trade agreement with our great and powerful neighbour.

From the very beginnings of Canada, we have sought to preserve a separate identity, to live in harmony with our next-door neighbour but as an independent country. Think back to the policy of the British government in granting the newly acquired French-speaking colonies guarantees of their religion, language and laws in 1774, about a year or so before the beginning of the American Revolution. Why? One reason was to encourage their newly acquired colonists to remain loyal when the American colonies revolted.

Think back to the United Empire Loyalists who came north to resist assimilation in the new United States. Think back to 1867 when Canada was formed out of the scattered British colonies and extended from sea to sea, partly at least in response to the doctrine of the manifest destiny of the United States to extend its borders northward.

In my own years in government, we spent a great deal of time and money trying to resist the pressures, political, economic and cultural, that arise because we are close and friendly neighbours of a dynamic society 10 times our size in population and wealth. Of course, we would not want to be anywhere else. As we all know, there are enormous advantages to be derived from living next to such a friendly giant, but we have not wanted to be overwhelmed.

Hence, the measures that Canadian governments have traditionally taken to support Canadian contribution to the arts, to prevent the media, written and electronic, from falling under foreign control, to provide financial help to industries in outlying areas, to underpin the finances of the poorer provincial governments, to strengthen the east-west transportation and communications links of a country strung out along the northern border of a great power, to scrutinize foreign investment, to ensure an adequate supply of energy in all parts of the country and to try to diversify trade.

I do not think I need say to this committee that Canada is not a natural economic or political unit. The natural lines tend to be north-south rather than east-west. Nation-building has necessarily involved government intervention designed in large part to resist or offset the continental pull. By entering into this bilateral, comprehensive preferential agreement we would no longer be resisting that continental pull. On the contrary, we would be accelerating the process of the Americanization of Canada.

Do we have to move in that direction? I do not think so.

Look at our post-war record. We have emerged as one of the leading industrialized countries, one of the seven countries at the annual summit conference. Every year our Prime Minister meets with the other six heads of government to discuss world problems. This year, the consultations will be here in Canada. Surely we have no reason to fear the future or to feel it necessary to get within the American system to prosper.

Without a comprehensive, preferential agreement, we can continue to trade with the United States on a tremendous scale. We can continue to work with the Americans, and with our friends around the world, to bring about further reductions of trade barriers, including barriers around the United States, on a most-favoured-nation basis.

We do not have to have a preferential trade agreement to co-operate with the Americans in trying to reduce barriers to trade and to eliminate agricultural subsidies in Europe, Japan and elsewhere that do so much damage to our agricultural exports; nor do we need a preferential trade agreement to negotiate with the United States about trade in energy. Personally, I have been involved in many negotiations with the Americans on energy. Without a preferential agreement, we are, in fact, steadily expanding our market in the United States for our surplus energy. In the energy field, we hold high cards whose value is likely to increase in the future. We can negotiate from strength.

A bilateral preferential trade agreement is not the only option Canada can pursue in order to expand and prosper. For the reasons I have given, I consider it to be an inferior option.

All countries are becoming increasingly interdependent. As this committee is well aware, Canada and the United States are probably more interdependent than any other two countries. Yet, I hope you will agree with me that Canada is regarded both by Canadians and by foreigners as a distinct society with as much control as most countries have over their destiny.

The purpose of the proposed preferential agreement with the United States is to form a North American free trade area, a new trading bloc. Our two countries would deal with one another on better terms than we deal with other countries. There would be a sort of reverse preference against the Europeans, the Japanese, the Chinese and our other suppliers and customers, who would find it more difficult to sell to Canada because of the preferred access granted to competitors serving Canada from the United States. The outside world would look at us differently than it does now. We would tend to be regarded as junior partner in a North American trading bloc in which the United States was the dominant partner.



pressure would be to bring our laws and customs into line with those of the dominant partner. This is so because the United States is so big in relation to Canada and the benefits to Canada of preferred access to the United States are greater than the benefits to the Americans of preferred access to Canada. American companies, for example, moving to meet stronger and privileged competition from Canadian companies, would be likely to insist upon a level playing field, which they would contend means that the laws of Canada should not confer an advantage not enjoyed by them in the United States.

Conversely, since they cannot do much to change the level playing field in the United States, Canadian companies meeting stronger competition from American companies would also have an interest in harmonizing the Canadian laws with American laws where the Canadian laws appear to put them at a disadvantage. How much this pressure would affect the structure of social security in Canada I do not know and find difficult to assess, but I have not been able to dismiss all concerns.

As another example, I would have thought that, as time went on, there would be increasing doubts about having different tariffs against overseas countries, if only because of the problems that would arise at the border when the customs officials have to decide about the tax treatment accorded to goods that have a foreign content. There would be no such problems, however, if external tariffs of Canada and the United States were the same. Needless to say, in the process of harmonizing external tariffs, the Canadians would be more likely to adapt their tariffs to the American pattern than vice versa.

And the exchange rate? For much the same reasons, the pressures would be on Canada to justify the value of the Canadian dollar, particularly if Canadian exporters appear to be exploiting successfully their preferred access to the United States market. Nothing formal, of course, just consultation.

It has been pointed out in reply that nothing like this happens in the European free trade area. The reason is, of course, that there are 17 countries in that area, 11 within the European Community and six others. No one country dominates, and each has a separate language and a centuries-old culture. In a North American free trade area there is a border thousands of miles long between the two partners, a common language and an enormous difference between the two parties in size and influence. Inevitably, Canadian identity and distinctiveness, already under pressure, would be eroded inside such a North American free trade area, regardless of the exemptions negotiated for Canadian cultural activities and industries. Having decided to adopt a continental approach to trade relations, it would be increasingly difficult not to do so in other areas of our relationship.

One final point. Is this proposed agreement another step towards freer world trade, an example to the world at large of what can be done when two great trading nations get together to eliminate tariffs between them? If I thought that were so, my misgivings would be fewer; I might even become an advocate. There are some things in the proposed agreement that could be useful in the new multilateral round of negotiations now under way if they were to be generalized, such as agreements on services. But it is not necessary to put them in the proposed bilateral agreement for that to be so.

I doubt very much that the proposed agreement, if implemented, would advance the cause of freer world trade. On the contrary, I am concerned that it would result in greater polarization, greater fragmentation. Once inside the American system, would Canadian exporters to the United States support a cut in the United States tariff, reducing the preference on the merchandise

they sell south of the border? Not enthusiastically, I would guess. Free trade areas are not approved by the General Agreement on Tariffs and Trade. They are an exception to the most-favoured-nation rule and simply tolerated. Canada cannot claim to be an adherent to multilateralism and at the same time propose to exempt some 80 per cent of its trade from the MFN rule, which is the essence of multilateralism.

From the point of view of the unity and strength of the free world, how much better and more sensible it would be, and how much more consistent with Canadian independence and prosperity it would be, if the objective of the summit governments was to be the elimination, gradually and over a period of years, even a fairly long period of years, of all remaining tariffs surrounding the industrialized countries of the world, including those of western Europe as well as the United States, Canada, Japan, Australia and New Zealand, for example.

But this is an idea whose time is probably a little way off. In the meantime, the traditional process of GATT negotiations should continue. Protectionism can be held in check. Some progress can be made towards freer trade and further fragmentation among competing trading blocs can be avoided, which, in my view, is highly desirable.

To summarize, I do not know, nor does anyone else know, what is going to happen to the Canadian economy if we were to enter the proposed bilateral preferential free trade agreement with the United States. The economists argue with some logic that Canadians on the average should be a bit richer, rather than a bit poorer, than they would otherwise be. Some would benefit, others would lose their jobs and have to find new ones.

The agreement itself, however, would be only one factor affecting incomes and employment, and probably not the most significant. I venture to say, for example, that Canadian employment and Canadian average incomes are going to rise over the coming years--subject, of course, to the ups and downs of the business cycle--agreement or no agreement, just as they have during my lifetime, and are going to be affected more by the state of the world and of the American economy than by the existence or not of any free trade agreement. That is why the forecasts of the number of new jobs resulting from the agreement are not to be taken seriously and could never be proved, in any event, one way or the other.

There is a price to be paid for that marginal improvement in the average Canadian standard of living over what it would otherwise be if in fact it comes about. The price, in my judgement, is a progressive erosion of Canadian independence and identity, which would come about, not at once, but gradually and inevitably over the years as a result of abandoning multilateralism and embracing continentalism. I do not think it is desirable or necessary to pay that price.

Mr. Chairman: Thank you very much for a very penetrating presentation. It generated a lot of interest and a lot of questions, starting with Mr. Neumann, who, I should warn you, is a historian and I am sure is concerned about questioning you on your north-south analogy.

Mr. Neumann: Mr. Sharp, I find your presentation most interesting. You should be aware, as the members of the committee are aware, that we, as a committee, deliberated on what specific studies we should initiate to add to our information which we are getting from delegations.



I proposed that we conduct a study to look at the longer-term implications to Canada as a nation and its ability to continue as an independent nation, because as a finance and economic policy committee, we seem to be focusing in with many of the delegations exclusively upon the economic impact and not on the historic traditions of this country of greater government involvement in building a nation east-west, against the north-south natural flow. The committee turned down my suggestion for a specific study in this area, and I thank you for your presentation, because you have zeroed in on the very issues that I have been trying to highlight.

What I would like you to do, if you could, is to outline perhaps what your feeling is about the longer-term impact for Canada as a nation of this continental approach to trade, and specifically what areas of economic policy-making at the national level will be impacted over the longer term.

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Hon. Mr. Sharp: I thought I had done some of this in my presentation, but I would be happy to try to repeat the essence of it. I am very happy, Mr. Neumann, that you had made this suggestion, because it seems to me that too much of the debate is concentrated on the winners and the losers in economic terms and that the proposed agreement has implications going far beyond the effect upon individual industries and regions of the country.

As I said in my opening remarks, if we were to judge on the basis of the gainers and the losers, we would join the United States, because under those circumstances whoever remained in Canada--I do not know how many people would remain here but whoever did remain here--would probably be a bit richer than otherwise, although I do think it is important to bear this in mind, that not all parts of the United States are richer than Canada. There are many parts of the United States that are poorer. Indeed, when you look at this particular area of the country, Ontario and the city of Toronto, there are not many parts of the United States that are better off than we are here. So we should always bear that in mind, but on the whole, I would judge that if you were to say the test is the economic advantage to the people who live in this part of the continent, then we should opt for joining the Americans as we have been tempted to do in the past and have always resisted.

The effect, in my judgement, is a general overall effect. We have always in the past resisted that pull. If you look at Canada geographically and you realize the enormous distances from Newfoundland to Vancouver Island and that there are only 25 million people living in that area, most of whom live within 100 miles of the border, you begin to realize the significance of geography upon our policies.

It was the building of the Canadian Pacific Railway that brought British Columbia into Confederation. The CPR would never have been built without government assistance. Everywhere you look in our country you come across the same sort of development, an effort to create a nation out of this vast area. We have done extremely well, everything considered, but it has not been by letting natural forces have their way. To some extent, when you decide that in trade you are going to move towards industrial integration, which is the purpose of a free trade agreement, then you wonder what happens in other spheres in the long run--not immediately, of course; we are not talking here about the next five or 10 years--and perhaps to members of this committee it will not matter very much, but I think we all have a concern about the future of the country.

My concern is just that, that once we have decided that we go for industrial integration to making our industries indifferent as to where they are located by removing the barriers to trade, then we invite a continuation of that process almost everywhere.

It can be contended that this is an exaggerated fear, but it is not as I look at the history of Canada nor as I look at the future. I think it is a legitimate fear and one that we ought to try to avoid if we can. Some people say: "Well, we are for it anyway. Look at the extent of the assimilation. Look at the extent of the enormous influence upon everything we do of the American way of life." That is true. This is part of the problem. We do not start with a country that is not already enormously influenced by the American pattern; we start with one that is. It therefore behooves us, I think, to say, "Let us not accelerate the process." I am concerned that is exactly what this free trade agreement does do.

Mr. Neumann: Some people suggest that free trade blocs or common market areas are being established elsewhere in the world: the European Community. You made reference in your presentation that Canada cannot afford to be isolationist; it has to belong to some grouping, and I have heard some suggest that perhaps not just the United States but all of North and South America should be that grouping. Would that lessen your concerns about independence?

I draw also a comparison. I wonder whether the answer would be no, because Canada for many years resisted joining the Organization of American States, and I believe the government you were part of was involved in that decision.

Hon. Mr. Sharp: Yes. I think it is a pipedream to think about a free trade area of North and South America. The countries of Latin America are not ready for free trade. We find it difficult enough. Imagine those countries where the economies are not very well developed exposing themselves to complete and uninhibited free trade with the United States. It is not on.

Now, there are possibilities of having special arrangements to promote trade between the United States and Mexico. I believe that kind of negotiation is going on now, and I could see it extending to Brazil and maybe Argentina. But the idea that you would have one great free trade area is a myth that I am afraid President Reagan is promoting. I do not think he understands quite the implications of what he is saying. I think we do. There may be confusion in the United States about the meaning of free trade, but now that we are presented with a proposal, we understand what it is. I am sure that if the Latin American countries were presented with the sort of agreement that we have been presented with, they would say: "Not for us. We are a long way from being at that stage in our development."

I do think, however, there is a great deal to be said, as I said in my opening remarks, for trying to get the principle of free trade extended from Europe across the Atlantic. This has been an idea that has been in some people's minds a long time--and it has been dropped recently--of a North Atlantic free trade area. This was one of the ideas, I think, that lay behind Mr. Pearson's views about the economic clauses in the North Atlantic Treaty Organization agreement, that somehow NATO could be more than just a defence arrangement, it could be an economic arrangement too; and free trade among the countries of NATO would be a tremendous step forward. I noticed recently some interest in Japan in the idea of free trade when they saw what we were negotiating with the Americans.



So that would make real sense, and in such an arrangement the Americans could not dominate. You see, the essence of our problem is that we have been so dominated by the Americans that we do not want to accelerate the process. If there were a free trade area that included Europe, we would have access to the European market, just as we would to the Americans, and they would have to us. There would be no way in which the Americans could dominate such a grouping.

So from that point of view, I think there is a lot to be said. But I am under no illusions that I think it is going to happen tomorrow. I just feel that if we are thinking about free trade, let us think in those larger terms and, perhaps after we are dead and gone, it might come about.

Mr. Mackenzie: Mr. Sharp, I want to add my thanks for arguments you have made that I found to be both concise and moving in their simplicity. I enjoyed them. You may in a very convincing way have given us the study--in a very concise way, at least--that Mr. Neumann tried to get within the committee.

But apart from the principles as to our future as a country, it seems to me that there are some real shortcomings in the agreement itself and in the procedures that are outlined that also scare me. I think most of us agree that the gradual elimination of tariffs is not basically the problem. It is the so-called nontariff issues that cause us some concern.

I would like to raise a couple of them with you, one of them being the fact that we have not got the relief that you referred to from US countervail and the fact that we are likely to be into this agreement, if it goes ahead within the next year, I guess, or thereabouts, and we have five to seven years that we negotiate what would seem to me, from my background and experience, might in effect be tariffs--or subsidies, rather--that could affect the countervail legislation from the United States. That also could decide whether or not some of our social programs are at risk.

It seems to me that almost in itself is a fatal flaw in the agreement. Surely we should have taken a look at what would be classified as subsidies before we finalized the agreement. I am just wondering if you are in agreement or disagreement with that or whether you have any comments on that particular aspect of the agreement itself.

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Hon. Mr. Sharp: I am quite sure that those who were negotiating this agreement wanted to achieve that result. I think it was one of the objectives of the Canadian team to find some way of reducing the uncertainty as to the application of countervail. This is evident from various statements made by the Prime Minister and Mr. Reisman, for example, when they said at one stage that the objective was national treatment.

If you have national treatment, presumably, the laws as they apply to partners in the agreement are the same. In other words, it does not matter whether you are talking about American goods or Canadian goods in Canada, they are treated on a national basis, and similarly with Canadian goods in the United States. They did not achieve that.

It is possible, of course, and I think everyone who has looked at free trade agreements knows that you can have a free trade agreement that would comply under the General Agreement on Tariffs and Trade; that is, it would not be censured without having national treatment. In the European free trade

area--I am not talking about the common market; I am talking about the countries in the free trade area--they can still apply countervail and antidumping and so on. From our point of view, it was a weakness in the agreement that we failed to achieve that.

I do not think we should have expected to have been able to achieve it, if I may just speculate about that. I thought it was highly unlikely that either the Canadian or the American governments would give up, at this stage, their rights to apply countervail or antidumping duties. I thought that was a very, very big step, and they did not achieve it. It is a weakness in the agreement.

I agree with you that we are not going to be sure, if this agreement is implemented, what attitude the United States government will take towards subsidies. An effort was made, I understand, although I was not part of the negotiation, of course, to try to classify subsidies. "These do not attract countervail. These would." They failed and they have five to seven years to do it. In the meantime, of course, if there were a protectionist surge in the United States and they wanted to apply countervail duties more strictly, as long as they were applying American law, they would be allowed.

There is an advantage, I think, in the agreement in having got some sort of procedure for ensuring that it is American law and not a distortion of American law that is applied, but that is about the only gain that was made.

Mr. Mackenzie: That was one of the things I saw as being pretty fundamental.

Another question I wanted to ask you is, if we end up with this free trade agreement in place over the next few years, what do you see happening to the Canadian dollar? Is it more likely to increase towards the value of the American dollar or decrease?

Hon. Mr. Sharp: I am reminded of the reply given by Graham Towers when he was governor of the Bank of Canada during the years when we had a fixed value for the Canadian dollar in terms of the American dollar, and he was asked a similar question. He said, "There is a fine of \$20,000 if I try to answer that question."

I really do not know. I never speculate about exchange rates because I think it would be very difficult indeed to be able to predict what is going to happen to any currency these days. When you think about the underlying instability in the world arising from the mounting external debts of the United States, and you think of the implications of that for people who are dealing in American dollars, and to say, "How long will the world continue to use the United States dollar as a reserve currency?" you cannot even answer that question.

Serious people are concerned about that, wondering what would happen if the United States could not sell dollar bonds and had to sell yen bonds or deutsche mark bonds in order to be able to raise money. So that has a tremendous uncertainty.

Then you say to yourself, "Now what about the relationship between the Canadian dollar and the American dollar?" How do we come off on that, because our fiscal policy has not been exemplary either? We have done better because we save more money and we are able to finance our own deficit in a way the Americans do not.

I am sorry, I will not even attempt to guess at what it will be and I do not think you will find any other serious student who would.

Mr. Mackenzie: You do not then automatically buy that the forces that are there, the level playing field and the economic integration, are likely to lead to a closer alignment of our dollar and the American dollar necessarily.

Hon. Mr. Sharp: I am quite sure, as I said in my comments, that if this agreement were to come into effect, the Americans would always be questioning whether there was an appropriate level for the Canadian dollar. Because we get preferred access to the American market, they would ask, "Are they also manipulating the Canadian exchange rate so as to get another advantage?" I am satisfied that in an arrangement of this kind we would always be having to justify the rate. I could just see the governor of the bank having to say, "I am letting the market take its course," and also see the scepticism on the faces of the Americans. But this, I think, is inevitable.

Mr. Mackenzie: Just one final and very quick question. You mention in your observations that it is difficult to accept any figures for job gains. Do you feel the same way in terms of the arguments that are made that it is easier to identify job disruption or dislocation or even loss? We have had a number of specific groups before us who have expressed an awful lot of concern about their particular industry.

Hon. Mr. Sharp: Yes, I think so. I also would say much the same thing about those estimates. But I do agree with you that it is much easier for a company which is facing increased competition from the United States to say, "We will have to close this place," or a branch plant decides that if the border is open, it will just serve Canada from the United States. It is easier for them to make an estimate of the job losses than it is for a company that foresees opportunities to say how it will exploit the opportunities.

So I think you tend to get rather harder figures on the job losses than you do on the job gains; not necessarily that they are better estimates, but they are easier to justify.

Mr. Ferraro: Mr. Sharpe, I enjoyed your presentation very much and I want to thank you for it.

I have two questions. The first one pertains to a particular aspect of the agreement. I agree with you that the main intent was to get exemption, if you will, from protectionist legislation in the United States or a better dispute settlement mechanism, and I agree with you, I do not think we have that in this agreement.

Setting that aside, I want to zero in on the energy sector for a minute. It is particularly upsetting to me that this particular agreement compels the dictation, if you will, of our energy policy and, indeed, pricing based on a continental energy plan and, indeed, dictated to some degree by world prices. I will go so far as to say I think it is an extreme restriction, if you will, on Canadian sovereignty. Certainly, in my view, the United States would never agree to something like that in regard to the reversal. One can question whether the United States has given up anything at all in this deal.

I am wondering if you could comment on that particular aspect of the deal.



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Hon. Mr. Sharp: Perhaps I should begin by saying that I do not think it was a necessary part of the free trade agreement to have included the particular clauses that are in the proposed agreement on energy. The principle of those clauses, I think, is this: In exchange for getting assured access to the American markets, the Americans have got undertakings that we will share shortages. I think this is essentially what the agreement says.

We have not pooled the resources in North America. The Americans do get access in times of shortage to our energy; we get access to the American market for our energy surplus. It is not in the ordinary sense a sort of balanced agreement. It is a special kind of arrangement and one, I take it, that is liked, of course, by the producers of energy in western Canada in particular.

I had occasion the other day to look at a presidential finding regarding the export of natural gas from Prudhoe Bay in Alaska. If this were a balanced agreement, I think we might have said to the Americans, "You are asking us to share the shortage, if one occurs, by guaranteeing you a part of our supplies at the same time you are undertaking to export from the United States some of your natural gas."

I thought to myself, not very seriously, that surely we should have commented to them that they were putting themselves in a position that would increase their chances of having the shortage. I do not say that seriously, because there is a lot of natural gas in North America, but it is the sort of problem that arises out of this agreement.

Moreover, and I said this in my opening statement, if you want to have an agreement on energy, you do not have to have a comprehensive free trade agreement. This has very little to do with free trade, except in so far as the Americans have undertaken not to place any barriers against imports of gas from Canada.

If we had not proceeded with this comprehensive free trade agreement, we could have negotiated an agreement on energy if we had wanted to, because in the long run I think we are in quite a strong position. We have good supplies. We have better supplies of energy than the Americans have, prospectively, and there was no reason for us to use this as a means of getting a comprehensive free trade agreement. That was always my feeling about it.

There is no doubt that it does limit the freedom of action of the Canadian government. It is not quite clear yet how far it limits the freedom of action of provincial governments. I am not quite clear on this, and perhaps there are others here who are more expert than I am as to whether the provinces are going to continue to have the control over resources that they had. I assume that they are and that it has been understood, but it is not quite clear in my mind.

The thing that really disturbs me most of all is that there have been times in the past when it has been the policy of the federal government to deal with energy on a national basis. I can recall when Mr. Borden brought down his report on energy which led to the formation of the National Energy Board. At that time the problem was that the western provinces did not have an assured market for their oil, so it was agreed that the Canadian market would be divided at the Ottawa River. From the Ottawa River west was for the sale of Canadian oil and from the Ottawa Valley east was supplied by foreign oil. I



had to administer this at one time and I had to be sure that none of that cheap oil from overseas leaked through to undercut the assured price for western oil.

So I do not think these kinds of things would be possible. Not that I advocate that they should be or need to be done now, but there is no doubt about it, this agreement does limit, to some degree at least, national action with respect to energy. I think it does. Of course, I have to admit that all trade agreements do that to some extent. This is not a black-and-white case, but I think the fact that we have entered into a specific agreement about energy does mean that we have deliberately limited our power to take national action on energy.

Mr. Ferraro: This is the last question I have. Mr. Sharp, let us hypothesize here for a minute. I appreciate your comments and I agree there is a lot of ambiguity in there and only time will really point out what will transpire. In that regard, if you became Prime Minister of Canada in October 1988, what would you do, sir? Would you tear up this deal?

Hon. Mr. Sharp: If there were any chance of an election by that time, I hope that no decision would be taken. I am not one of those who think it is a good idea to have to disturb an agreement made between two countries, particularly between Canada and the United States. If this agreement can be stopped or does not proceed, which is a better way of putting it, then that is a lot better than having to go back and say we made a mistake. That is very serious in Canadian-American relations.

I was Secretary of State for External Affairs for six years and I would not like to be in the position of having to say we made a mistake, which is possible. Suppose, for example, that this agreement does go through and then an election is held and Parliament votes into office a majority of members who are opposed to the agreement, which is quite possible. It poses a terrible dilemma. If I were in the position of being the leader of a party or a prospective Prime Minister, I would say, "I will deal with the problem when it arises."

Mr. Chairman: I am going to let this go on a mite beyond the allotted time because of the situation we are in. I have Mr. Callahan, Mr. Pelissero, Mr. Nixon and Mr. Morin-Strom each wanting to ask questions, but please try to be very brief.

Mr. Callahan: That is probably an impossibility for me, as I think people around here would probably indicate.

Mr. Sharp, your presentation was excellent. It seems to be a focusing in on the effects of the agreement on Canada and its ability to maintain its independence and identity. In that respect, you are somewhat in contrast with a former colleague of yours, Donald Macdonald, who seems to espouse most of the arguments I get from financial people in my community. They seem to be prepared to risk--maybe they do not do it deliberately, but they are prepared to look at the financial side as opposed to independence and identity.

I have to ask you this. Recognizing your view, let us say that the United States, after this agreement came into place, should decide to do some of the things it did in the past, such as refuse to allow Americans to trade with Cuba and fail to recognize Red China as a trading locale, whereas we did it much before they did, or, for that matter, the Japanese perhaps, which may not be realistic in the immediate future but could possibly be, down the long

road, because of the difficulties they are having in terms of the trade imbalance.

You talk about our independence and identity. Do you believe that the entering into this agreement and over a period of time the stronger interdependence between the United States and Canada could in fact place us in the same category where we would have markets that would be available to us if there were no agreement and we maintained our total economic independence and could in fact have the reverse effect of limiting markets to us in the long run?

Hon. Mr. Sharp: I do not know whether I can answer that briefly, but let me try.

When we had a different trading policy with China and with Cuba than did the United States, we managed to get around the problem by guaranteeing to the Americans that we would not allow Canada to be used as a back door. In other words, if they had a policy with respect to Cuba of not trading with Cuba, we said, "We will continue our policy of trading with Cuba but we will see that Cuban goods do not enter Canada for the purpose of entering the United States," and we policed that quite effectively.

Within a free trade agreement it would be more difficult, in my judgement. We would have no barriers to trade and industrial goods between Canada and the United States, and maybe in agricultural goods too. To try to implement that policy under those circumstances would be increasingly difficult. I think it somewhat reduces--although I do not say we could not have differing policies--it reduces the chances that we would follow a different policy. There would be a tendency to try to agree if we could. It would not prevent us, however, from having different trade policies.

Mr. Callaghan: I guess following quickly on that--and I will, Mr. Chairman--two other points. All of the arguments that were put forward in the House by the third party, which supported this agreement, or at least many of them, started off with words like, "I think it will work" and "We have to do it." They seemed to fall in line with the point you put your finger on--and it was the impression I got, sitting in the House--that in fact those defending it felt it was the only alternative we had and they were really negotiating out of fear as opposed to an independent and sovereign nation. That raises the fear that I have of such things as our sovereignty over the Northwest Passage, the fact that the United States is not prepared to recognize that sovereignty; they will ask us--I think that is the best they will do--to run ships through there.

Finally, I guess the concern I have is that, in my estimation, Canada's historic destiny of both past, present and future--and maybe not in the future with this agreement--is that of a peacemaker; that is, the person who could get in between the two superpowers and, much like a referee in a hockey game, back them off. In fact, I think that is one of the items Mr. Trudeau did in the last days in his position, was to really come in between the two superpowers and cool them off, where they did not have an opportunity to cool one another off.

Do you see--maybe this is a rhetorical question--this entering into this great agreement with the United States, and the perception by people around the world, may place Canada out of that position of being perceived as an effective peacekeeper, should the two superpowers again decide to go at one another? Perhaps not right away, but over a number of years, if we trade with

them, it would almost become difficult to distinguish us from the United States in terms of what bed we are lying in. Perhaps I will ask you to comment on that. I do not know whether you agree with me or disagree with me.

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Hon. Mr. Sharp: One thing I am sure of is that if this agreement is implemented and goes through, the government of Canada will increase the rhetoric about its independence; in other words, the immediate effect of this agreement upon a government that was trying to justify it would be for it to say, "We are going to be more independent than ever." Whatever happens, it will happen some way down the road. If I were the Secretary of State for External Affairs in a government that had just signed an agreement like this, I would say, "Now I will show you how independent we are going to be." They would exaggerate these issues just for the sake of trying to offset what may be a perception.

In the long run, as I say, my impression is that if you look down the road some way, after there has been industrial integration, there would be a tendency for us to be more and more American in our outlook because we would be part of a continental structure. But at the beginning you would see no evidence of it. Quite the contrary: Whoever was the government after such an agreement was implemented, I am quite sure they would emphasize how independent they would be.

Mr. Callahan: But over the long run it may be different.

Hon. Mr. Sharp: That is a different matter.

Mr. Chairman: The water preservation legislation that was introduced right after the agreement in October might be a sign of that. Mr. McCague has a question.

Mr. McCague: Mr. Sharp, you have prepared an excellent brief on your own personal thoughts and I appreciate that. You make two statements that interest me. "Let's join the protectionists by getting inside the American system before it is too late," and, "Protectionism can be held in check." How do you do those two things?

Hon. Mr. Sharp: As to my use of the "Let's get inside," I said that is what the advocates of a free trade agreement say; it is not what I say.

Mr. McCague: Oh, I see; OK.

Hon. Mr. Sharp: I was just using that as evidence that--

Mr. McCague: That they are getting inside.

Hon. Mr. Sharp: Getting inside the American system: That is how they say you avoid this. I just say that is a policy of fear.

Mr. McCague: On the other one.

Hon. Mr. Sharp: My view is that there is very great danger of the world getting fragmented into trading blocs. I was at a symposium the other day with some Europeans. I said: "Why do you in the European Community not offer to extend your free trade agreement to include the United States and Canada? It would certainly be a great gesture of unity in the free world. It



would be the NATO countries." They said, "Well, we need to keep a barrier around this area so that we can settle our internal problems first."

It is evidence of the kind of thing that goes on all the time. Once you get inside a protected area you tend to say, "We must turn inward." I think it would have this sort of an effect on the trading community and Canada too, a tendency to say: "The American market is our primary market. What we can get elsewhere is useful but it is not at the centre of our concerns." I look upon the formation of trading blocs as tending to fragment the world because trading blocs turn inward.

Mr. McCague: Are you saying then that you do not favour the free trade agreement but neither do you favour the status quo?

Hon. Mr. Sharp: That is right. I am no person supporting the status quo. May I say just in this connection that one of the things that has disturbed me a little bit about the debate that is going on is that people say, "What is your alternative to a free trade agreement?" as if this were something that had to be done. To which I say, "If people say, 'We would be all alone outside all these trading blocs,' then I say, 'Lots of countries like that are prospering.'" Small countries are doing a lot of trade with the rest of the world, as we are. We are one of the great trading nations of the world. To me, when you ask that question, "What is the alternative to a free trade area?" it is to pursue trade with all parts of the world, as we have been doing and perhaps should do more of. I do not look upon that as, in a sense, a legitimate question. The question to them is, "Why would you change the course we have been following which has proved to be so profitable?"

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Mr. Pelissero: Mr. Sharp, you raised, I guess a condition before you would want to see the federal government rush through a ratification process of a federal election. Would you also add a second condition to that list, depending on the outcome of the omnibus trade bill? Have you been following that at all, and would you care to make a few comments about that?

Hon. Mr. Sharp: Yes, I have been trying to follow what is going on on the omnibus trade bill. I must say, like most people, I am more confused than clarified in my thinking. The bill I have seen has parts in it that would suit us very well and some parts that would not. I do not think those who have criticized the bill have always read it, but it does provide powers to the President to reduce tariffs, for example. I am sure this is a power we would like him to have. It does, however, include things like the Gephardt amendment in the House version of the bill.

As I said in my opening remarks, I find it difficult to believe the United States will really turn protectionist. I think the collapse of the stock market caused people to think very hard and think back to 1929 when the stock market collapsed and the Americans turned protectionist and the world took a long time to recover and did not fully recover until the war.

I find it very difficult to know whether we will want the trade bill that emerges or whether we will not. There are some parts of it that we would like to see the Americans have in their power.

That comes to the second question, whether we want to be exempted from it.

I am sorry to be so hesitant in my comments on this, but it is only if the bill does contain serious protectionist elements that we would want to be exempted from it. It is not necessarily a bill from which we would always want to be exempted, it might be one that we could live with very well. Until we see what emerges, I do not think there can be very much intelligent comment.

There is another technical question, but as those of us who have been members of legislative bodies know, sometimes technical questions can be got around. That is that, at the stage when the Senate and the House of Representatives meet on bills that are different, the general rule is you cannot add anything new. There is a technical question as to whether there could be an exemption for Canada, but I assume that is a technical question that legislators know how to deal with.

Mr. J. B. Nixon: I too would like to add my voice to those who are complimenting you and thanking you for appearing before this committee. My question, quite simply, is, do you have any views on the advantages to the United States in engaging in this agreement?

Hon. Mr. Sharp: This is a Canadian initiative. It was not an initiative from the United States. As I understand it, it arose out of Donald Macdonald's royal commission, in which one of his main recommendations is that we should enter into a free trade agreement with the United States.

The Americans, as you know, have not been paying very much attention to the question. Any of you who have been down in Washington, as I have a number of times in recent months, know that it was not being talked about until very recently. Even today, it is rather overshadowed by the primaries and other things.

My guess would be that it would be acceptable to the United States. I think they would say to themselves: "I think it would be a good thing if Canada and the United States had no tariffs between them. It adds to our weight in the world. We can use the Canadians in supporting our position when we argue with the Europeans or with the Japanese and so on." So my guess is that the chances of it being approved by the American Congress are pretty good.

A great deal will depend, it seems to me, upon how they view our reaction to the agreement. One of the unknown quantities is, will they look at what is going on in Canada and ask, "Are Canadians really convinced that this is what they want?" If there was doubt about that, then they might have doubts about whether they should proceed in advance of us, but this, I think, is the essence of the situation into which we are moving now.

As we know, there is opposition in Canada--in this province and in Manitoba, for example. Public opinion is very split on the issue. This is bound, I should think, to have some effect upon the attitude of the legislators in the United States. If it was clearly the opinion of Canadians that it would be a good thing to have a preferential, comprehensive free trade agreement with the United States, I think the Americans would not hesitate; they would think it would be a good thing to add Canada to their trading area.

Mr. Morin-Strom: Thank you, Mr. Sharp, for bringing us a unique international perspective which we have not received previously, one which is focused much more on our position within the world scene as opposed to the economic tradeoffs in our relationship with the United States or internally. Our focus, often, is just here in Canada. Certainly the issue you have brought up, about the conflict between whether this is beneficial in a multilateral

scene as opposed to being a continental scheme, is a valuable one for all of us to consider.

My question is, though, where do we go from here? You have expressed the feeling that something should be done if this agreement is to be stopped before its implementation. You have expressed some concerns about what penalties we might face from the United States if we were to try to get out of it later. Is Canada already being held effectively at ransom by having agreed to this agreement without having a federal government with a clear mandate from the public on it? Is it essential that we have an election this year? And how best can Canada get out of this agreement if in fact the Canadian people elect a government in the coming election which is committed to stopping this deal from going through?

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Hon. Mr. Sharp: I am no longer an elected member of anything, so my views are just those of an ordinary Canadian citizen. Personally, I feel that this is the kind of an issue upon which the public should express its views. It is very difficult in our system of government for that to be done, except at a time of a general election. There have been suggestions that there might be a vote on the particular question, sort of a plebiscite or something of that kind. I think it would be a lot more difficult to pose that question than it was to pose the question on sovereignty-association in Quebec. You would have to have a long explanatory note as to what the words meant. So it does, I think, come back to a question of, is there any way, except a general election, of testing public opinion?

This is a question that those who are in office have to decide for themselves. I personally would certainly feel better about it if in some way there could be an opportunity for the public to express its views on this subject. All of us who have been through elections, however, know that no general election is ever on a single issue and there are problems about that.

I do not think I can say anything more on the question. You have seen my views and the misgivings I have. I do not know how far those misgivings are shared. I am no longer out on any campaign; I am on no campaign at all. I came here because I was asked to come and I felt it was only proper that I should answer the request by coming and expressing my views. But, unlike the rest of you, I am not standing for office, so I just express--

Mr. Ferraro: Is that why you are smiling so broadly?

Hon. Mr. Sharp: I can be relaxed.

Mr. Chairman: The holistic approach that you take into this subject and the discipline of your argument have been impressive. It reminded me of a similar conversation I had with you, which I was telling you about, some 20 years ago. I am not going to reveal your age to the committee, but suffice it to say you were Assistant Deputy Minister of Trade and Commerce in 1951.

To listen to your argument and to listen again to the breadth of the way in which you have expressed it and the precision with which you have expressed it has been a real treat. I know the opposition members will call me to order if I am out of line in saying this, but I think it is correct to say that the committee has had in its presence today a great Canadian. We thank you very much for your interest today.



Hon. Mr. Sharp: Thank you, Mr. Chairman. That is very kind. I have enjoyed coming here. I have never before, of course, attended a meeting of a legislative committee of Ontario. Indeed, as a minister I would have refused to come. But now that I am just an ordinary citizen, I feel like just a member of the citizenry of Ontario. I have enjoyed very much this appearance and I hope I have been helpful.

Mr. Chairman: You certainly have been, and we appreciate that you feel the freedom now to express your views without any sense of bias. We appreciate the access to your experience and knowledge. Thank you very much.

In saying that, I do apologize to our next witnesses, but I felt it was necessary to let this presentation go on. Jan Westcott, the executive director of the Wine Council of Ontario, if you will come forward now, I assure you we will give you our rapt attention and, if necessary, allow your presentation to go over as well.

Mr. Callahan: Did he bring any samples?

Mr. McCague: I can only assume from what Mr. Sharp said that were he still the minister, he would not even come to talk to the present government.

Mr. Chairman: I suppose you can assume that. Mr. Westcott, would you give us your presentation?

Mr. Westcott: Certainly, I will.

Mr. Chairman: Do you have anything we can follow along with you?

Mr. Westcott: Sure.

Mr. Chairman: Perhaps the clerk can hand those out.

Mr. Callahan: I was wondering if he had any samples with him.

Mr. Westcott: I am sorry. The law does not permit that.

Mr. J. B. Nixon: Maybe I can get a special-occasion permit.

Mr. Callahan: You could have brought the grapes. We could have squeezed them here.

Mr. Westcott: Sure.

Mr. Haggerty: They are being squeezed now.

Mr. Chairman: All right. Members have the presentation in front of them. Perhaps you can lead us through it.

#### WINE COUNCIL OF ONTARIO

Mr. Westcott: Thank you very much, Mr. Chairman. I am Jan Westcott. I am executive director of the Wine Council of Ontario. Joining me today is Ramona Marlin, who also works for the wine council. We are an industry trade association, representing 18 of the 19 licensed wineries in the province and I expect that we will be representing the last winery shortly.

I want to make some introductory remarks, very short ones, at the end of

which I will be happy to answer any questions. We are, of course, going to talk about the US-Canada free trade agreement and the impact and effects it is going to have on wineries in Ontario.

I would like to start by noting that Canadian vintners have been producing wine commercially in Ontario since the mid-1870s and, on a smaller scale, going right back to 1811. So we have been here a long time. We have pioneered viticulture in this province. We have conducted lengthy research efforts to improve quality. We have introduced new grape varieties into Ontario and across Canada and, in fact, have created an industry where none stood before.

In doing these things we have created jobs for Ontarians who, in turn, created wines for other Ontarians and our endeavours have, over this 100-year-plus period, generated needed economic activity and wealth within the province. Today, that development is reflected in the approximately 5,000 jobs our industry represents here in the province, out of 10,000 wine industry jobs across Canada. In those numbers, I have included grape growers as well.

We are not a big industry like steel or automobiles, but like anyone who has built something where there was nothing before, we are rather proud of what we have achieved. What have we achieved? Despite significant obstacles, we continue to produce almost half of all wine Ontarians consume and, extending across the country, we produce a little better than half of all the wine that Canadians consume.

Moreover, we have successfully introduced new and innovative wines and wine products to successive generations of Ontario consumers. Ours is a business involving great transition over this period of time--changing grapes, changing consumer tastes, changing technology--transitions that we have mastered over and over again. Yet transition has been only one of the challenges we have faced. Wine makers in this country have also had to overcome diverse social concerns--agricultural land use issues, the occasional antialcohol campaign, government revenue needs, regional economic development requirements--all factors that have helped form and shape the business as we know it today.

That the Canadian wine industry and the Ontario wine industry have been significantly shaped to accommodate these issues is evident from the many unique practices, not all of which always make sound business sense, that Ontario and, latterly, Canadian wineries have been forced to adopt to stay in business.

Interestingly, Ontario wineries and Ontario's own liquor control board are both unique Canadian institutions, Ontario first and Canadian second, developed over time to meet the realities and the needs of Ontario and Canada as we developed as a province and as a country. Yet, in our case, we have done what we must to remain viable businesses and, although it has not always been easy, we have provided Ontario consumers with wine price and quality values that they continue to find attractive.

Within this constant push-pull environment in which we operate, we face yet another challenge, that of free trade with our neighbours to the south. Since October 5, it has become clear that our industry has been badly hurt, some believe mortally so. I think everyone agrees that the wine section of the agreement is harsh and represents an unrealistic and artificial arrangement established by the government of Canada for the purposes of concluding a deal with the United States.

It ignored the state of development of the wine industry in Canada, its cost structures and its competitive environment. In fact, I have heard people in the trade negotiations office in Ottawa confirm that it is an agreement born of the political expediency needed to make the deal, largely without a lot of consultation, to meet the demands of the vocal California lobby that, of course, is very close to President Reagan.

I think it is interesting to note that whenever Mr. Reagan travels around the world on diplomatic and trade initiatives, it is a common practice that he travels with a quantity of California wine with him. It is de rigueur that it is served at almost all American state functions, whether they be in the United States or externally. We know that when he came to Canada to have a chat with the Prime Minister, he certainly brought lots of it with him then.

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Mr. Chairman: But we will be able to prevent that now by countervailing.

Mr. Westcott: Anyway, what was done may be realistic politics but it does not make a lot of sense in economic terms, certainly from our point of view. We are told this harm was necessary, none the less, and was done to us in the national interest. We are told that this new order is the way of the future and that we must become more flexible, adaptable, efficient and competitive. We are told we must organize ourselves to march to this new, different and, dare I say, foreign drummer. We see that one of our major competitors, the beer industry, was granted privileged treatment and protected from the hazards of free trade.

So here we are, a small industry tracing its roots back before Confederation, struggling to update and improve itself to stay abreast of consumer demands, sacrificed to accommodate American interests while the large Canadian brewing industry continues to enjoy protected status. Somehow it is difficult not to feel betrayed. Quite frankly, from the reactions emanating out of some of the provincial capitals, I think some of the provinces feel that too. I even count British Columbia, which, although it supports the deal, when it came to the wine industry felt it was double-crossed because it was promised a 10-year reasonable transition.

In my mind, it is a bit of a David-and-Goliath story where not only did Goliath beat us but also ate David for lunch. None the less, we and the thousands of others involved in making and selling Ontario wines have been Canadians for a long time. We think we are good Canadians and are interested in the wellbeing and the prosperity of our country.

Many economists tell us that free trade with the United States is the right direction for this country and that it will be a good deal for Canada. While we do not really know whether this is true, we have supported the country in the past and are prepared to do so again. Yet the deal has unfolded quite differently from what we were led to believe. There are plenty of examples.

One that is particularly sensitive to us in the wine industry is the issue of marketing boards. Canada's unique agricultural sector marketing board systems and all that they entail and represent are, we were told, protected. I was told that by the federal Minister of Agriculture not a month before the deal was signed.



Provincial marketing boards, including Ontario's own grape growers' marketing board, it seems, are not protected. Many other things which, like marketing boards, have been fundamental to the viability of wineries in Ontario will also change and some will cease to exist. Consequently, we must try to figure out how to stay in business once this deal is implemented. Under these new rules that have been thrust upon us, wineries in Ontario must and will change their current practices to remain viable. Clearly, we must significantly alter our sourcing, production and marketing practices in order to meet this new, forced competition.

Moreover, it is clear that we can no longer respect long-standing barriers between provinces, the continuation of which would see American businesses and American products given preferential treatment over Canadian. Surviving in this radical new environment is going to necessitate significant change to ways things have been done for a long period of time in Canada and in Ontario; and there are going to be changes which some in our industry, both on the growers' side and on the wine producers' side, may not come through.

Impacted as we are--for the benefit of Canada, we are told--we do look forward to the availability of promised financial assistance to speed wineries' transition to a new, more competitive mode. Clearly, sensible federal-provincial co-operation, with transition assistance that will be neither burdensome nor onerous, can ensure enhanced opportunities for Ontario producers to successfully compete in this new free market.

While we are certainly not afraid to compete--something that we do every single business day out there on the shelves--we are counting on the continuing positive and supportive relationship we have enjoyed with the province for--it says "many years," but it has literally been many, many decades.

I repeat, however, that our survival under these new rules means an altered industry. In fact, having done the deal, it is axiomatic that wineries must respond by altering how they conduct their business in a number of ways. Specifically, raw material sourcing has to be based on competitive prices and quality. We have to look at national production regulations. We have to become involved in more aggressive marketing and selling on a national scale with product opportunities in each province no less than those guaranteed to US wineries. And there has to be an expansion of the opportunities for wine marketing through retailing and merchandising practices which, if we were in any other business, would be taken for granted.

Ladies and gentlemen, if free trade is ratified later this year, these are some of the important ways our industry will respond. Thank you.

Mr. Chairman: Thank you very much for the interesting problems that you have posed.

Mr. Callahan: First of all, I have to say I suppose the fact that Californians are so worried must auger well for the product that we produce here in Ontario and in this country if they are that frightened of it. More important, you made a comment that British Columbia--and I did not quite hear it--was given a 10-year transition period. I would like to know how that came about.

Mr. Chairman: I think he said they wanted one.

Mr. Callahan: Did they get it?

Mr. Westcott: No.

Mr. Callahan: All right. I thought maybe they were getting something special for going along with the deal or something.

Mr. Chairman: That was Nova Scotia.

Mr. Callahan: I certainly hope it is not true, but you say that many believe the industry is mortally wounded. To put the worst scenario on that--and I hope that is not the case and I am sure the people of Ontario hope that is not the case--what would you see those lands being used as? Most of the land I am familiar with, I guess, is in the Niagara Peninsula, which is probably the most fertile agricultural land around.

Mr. Westcott: Tough question.

Mr. Callahan: Are we going to have housing from the United States border right through to Toronto? That would have to be the alternative. That would be a bit of a tragedy.

Mr. Westcott: Yes. I will answer your question, but maybe I will go back to what I said about British Columbia, just to amplify.

When the negotiations were going on and when people from the trade negotiations office in Ottawa were coming around and talking to industries, indeed when people in the federal government were talking to industries, they talked about this being a deal that would be implemented over 10 years. Indeed, most of the deal is being done over 10 years, with the tariffs in particular being phased out, in most cases, over that length of time.

While we in the wine industry had talked about the need for longer time frames because of the time involved in replanting grapes and making changes to products, this being a very time-intensive initiative, I think in the back of our minds, even in those provinces that supported free trade--i.e., British Columbia--we said, "Well, if it's 10 years, that's not too bad." What everybody has to remember is that what was finally negotiated is something completely different from 10 years in any sense. We in the wine industry have basically a two-year deal.

On January 1, 1989, we lose 25 per cent of the advantage in pricing that we have against the Americans on the day when the deal takes effect. On January 1, 1990, a year and one day later, we lose another 25 per cent. So within a year and a day we are losing 50 per cent of the advantage, or what I call the balancing factor, that has allowed the industry to survive in this country and in this province. In a number of other areas, we do not even have a year and a day. On listings, on merchandising activities, on a whole range of things, Canada has agreed in this deal to implement the concept of national treatment on day one.

There was a lot of talk that allayed some fears, I guess, before the deal was concluded that in the final analysis, while it may have some whacks for us, there would be 10 years. We are a long way from 10 years. We are in a position where I cannot think of too many industries that could make those kinds of radical adjustments in the time periods that have been allotted. On top of that, we are an industry that is rooted in agriculture, which just makes it completely out of the question.

I think British Columbia, which had supported the free trade deal, was

very shocked and alarmed when it found out what the actual timing was. I have spoken to people in the government of British Columbia who have said that this is not what they were led to believe and it is not what they expected, and there is some great concern about what is going to happen in the Okanagan Valley because of this deal. So that is that.

Now, as to the question of being mortally wounded. As I think we all know, the government of Ontario has been working with the industry for a period of about two and a half years; not so much in terms of free trade, but recognizing the pressures that were going to be on wineries, and indeed many industries, to make some changes that would allow us to be more competitive with the people in the business everywhere. Over the course of that two-year period, there were a number of questions that we, the growers and the province, addressed to come to a determination as to what could be done.

First question was, should there be a wine industry in Ontario and Canada? The answer was yes. If there should be, what do we need to do to become more competitive? What kind of changes do we need to make to allow the growers, and allow wineries, to get out there and hustle and improve their competitive position?

Clearly, the starting point in Ontario was that we should have an industry. What changes do we have to make? How are we going to do it? What are the resources needed? What are the impediments? Who can make the changes? It was that sort of thing. At the end of it, we came up with a competitive strategy which has turned into this 12-year transition period that Ontario is proposing for the industry, which is a transition period built on solid information about where the industry is today, what kinds of changes have to be made, and some of the difficulties we will have to go through to get there.

The question of the grape lands in Niagara is a very critical one, obviously. I have sat in a number of meetings with representatives from the agriculture ministry and the agriculture community. If you cannot grow grapes, if it is not economic to support grapes on those lands, finding other crops, other agricultural crops, is going to be very difficult, extremely difficult. In fact, I have heard some people in agriculture say it is going to be damned impossible. We have been through the tobacco situation in southwestern Ontario and everybody is trying very hard, but we are not having a great deal of success.

Frankly speaking and personally speaking, as a Canadian, I find it somewhat offensive that, when you think of Canada and the huge country that we are and the little arable, good farmland that we have--the Okanagan, the Niagara Peninsula, the Annapolis Valley--we should have to sacrifice those areas to do this deal with the United States. I kept hearing for years, while this was going on, that this was the biggest, largest trade deal ever done in the history of the world, hundreds of billions of dollars, and it was being done to make economic sense. In our case, I do not see the economic sense and I do not see the need for Canada to have potentially sacrificed those agricultural lands. The reality is you take them out of grapes and you put them into peaches. That is not viable. We have a very sensitively balanced situation in the peach commodity. We also grow sour cherries in the peninsula. Last year we got hammered pretty hard by the Americans on sour cherries.

I think, clearly, the wineries and the growers have to make changes, but there was not a reasonable period of time allocated for those changes to take place.



Mr. Callaghan: You say that 5,000 jobs--we are talking about 5,000 jobs here in Ontario, 10,000 in Canada. Have you done any studies, or have you determined how many other jobs or subsidiary collateral industries would be affected as a result if you people were to be, say, mortally wounded?

Mr. Westcott: Well, Woods Gordon did a study for the province about a year ago. It looked at all the beverage industries, including soft drinks. The conclusion was that it would be--not too many people have quantified it--but their conclusions were that the wine industry would be the hardest hit; the brewers, if they were included in the deal, would be very hard hit; the distillers would be less so; and the soft drink companies, would feel no real impact. The 5,000 jobs, that term that we use in Ontario, includes both people who work for wineries and brewers, what I would call full-time brewers, and a number of jobs in supplier industries. We buy a lot of glass, obviously. We buy a lot of packaging. We are not huge advertisers, but we do advertise, and we buy services.

Mr. Callahan: So that includes the whole industry.

Mr. Westcott: Yes.

Mr. Callahan: OK. Thank you very much.

Mr. Chairman: I have a supplementary to a couple of Mr. Callahan's points. You are alleging basically that the British Columbia wine growers are alleging they were misled by the federal negotiators. Is that right?

Mr. Westcott: Well, I think that certainly when we were in Ottawa and of the provinces expressed concern about what would happen, the response was: "Well, don't worry. There is a 10-year phase-in." If people, both the negotiators themselves and federal cabinet ministers, say that to you enough, I think you come away from those meetings thinking the worst that could possibly happen would be a 10-year phase-in. We do not have that. We have a seven-year, heavily front-end-loaded package.

Mr. Chairman: The Trade Negotiations Office does not wish to talk to us. They do not communicate with us at all, so we have to get their views second hand. You also said in an aside, when you were reading paragraph 3 on page 3, "It is an agreement born of political expediency, without consultation, to meet the demands of a vocal California lobby with access to the President." About that point, I think you said the people in the Trade Negotiations Office confirmed that. Do you want to expand on that? Did they tell you there was no consultation?

Mr. Westcott: No, not that there was no consultation. The point I was making was that we got to the last minute on the deal and in order to clinch this deal, Canada had to come up with some compromises. I guess they looked around the list and said: "This industry represents X. This industry represents Y. Which one is most important to the Americans and which one is least damaging to Canada?" And our number came up.

While you may have heard from quite a few industries that are concerned about their future and may be disenchanted with the way with which they were dealt, I think it is pretty clear in this country that nobody was dealt with on the basis that the wine industry was dealt with. We were a bargaining chip. The validity of the industry, the role of the industry--I mean, none of the facts entered into the picture. We were a bargaining chip. That, I believe, was confirmed. I read in a Globe and Mail article that this kind of question

was put to somebody in the trade negotiation office and he essentially said, "Look, we got to the last minute and that is what we had to do." Not that those things do not happen, but I do not think you can be expected to smile and not be bitter after it has been done.

Mr. Chairman: Finally, there was the issue of peaches taking over the grape lands. The farm editor of the Kitchener-Waterloo Record claims that all the grape lands could be used to grow peaches, but I understand there is a soil problem. They need different types of soil, do they not?

Mr. Westcott: That may be. There are two questions. One is that many of our agricultural commodities in Ontario are in balance. If there were a tremendous demand for more Ontario peaches, people would be out planting orchards all over the place. The fact is that the supply and the demand for peaches, as with many other commodities, are balanced. As well as that, there are some properties where grapes are grown that would not provide as good ground for other crops. We grow grapes, as they do in many other parts of the world, on less desirable soils, particularly hard clays and those kinds of things.

Mr. Mackenzie: I have just one question. You list four actions that have to be taken if you are to survive, if you are not mortally wounded. The first one is, "raw materials sourcing based on competitive prices and quality." Would that include grapes or concentrate from American sources?

Mr. Westcott: I suppose in a sense it would. My comments today are not meant as an attack on marketing boards, although God knows we have said our piece about marketing boards in the past, as many processors have.

The reality is that Canada has developed a system of agriculture that, for all of its warts, has served us reasonably well. We have managed to do a number of things quite well inside Canada. I guess the problem that I have with the free trade agreement is that it is proposing to change those things almost immediately.

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When I was in Washington last year, meeting with some of the people from the office of the United States trade representative and the Department of Agriculture in the United States, I said, "Look, you are asking Canada to make fundamental changes to the way that it does things, fundamental changes in who has authority, in many cases, over beverage alcohol and fundamental changes in the relationship between growers and processors. If this is a reasonable way to go, all those things are worth considering. But what you are asking Canadians to do is a little bit like Canadians going down to Washington and suggesting that, in order to consummate this deal, you Americans have to make some changes to your Constitution."

Mr. Mackenzie: I think you are missing the point I am making. Really you say, to survive, if you are not mortally wounded, there are four things you have to do. One of them, as I say--and I did not take it as an attack on marketing boards--is raw material sourcing on competitive prices and quality. If my figures are accurate, you can buy a ton of grapes--or, I suppose, the same thing would apply, at whatever price, to the concentrate--from the Delano Valley in California for \$300 a ton, roughly, whereas the price is \$500 to \$600 a ton or better here in Ontario. Is that a fact?

Mr. Westcott: Yes.

Mr. Mackenzie: If that is a fact, if you can buy it at half price from the Delano Valley in California, then it is pretty obvious that, in your sourcing, you have eliminated a good chunk of the grape growers right off the bat. Are those figures relatively accurate?

Mr. Westcott: More or less. Clearly the challenge is to produce better quality grapes, ripe grapes, at the right price. We think that can be done. It cannot be done instantly. It is going to take some time. There may be a transition required until such time as Ontario growers can supply those kinds of grapes at better prices. Better prices are possible for a number of reasons: enhanced efficiency, different planting spacings and all kinds of things--just a general improvement in viticultural techniques.

Mr. Mackenzie: This is part of the reason for the transition time, if we have to go this route--

Mr. Westcott: Absolutely.

Mr. Mackenzie: --facing a deal that is in effect in two years, when you can buy the basic raw material at one half the price. It is going to be difficult to get them to make the changes here, in a short term, in Canada.

Mr. Westcott: I would turn it around. We cannot stay in business as wineries competing with people on a head-to-head basis if their raw material costs are half of what our costs are. That is it.

Mr. Chairman: Mr. Nixon, Mr. Haggerty, Mr. Pelissero, Mr. Morin-Strom and Mr. Neumann. I understand we started about 2:25.

Mr. J. B. Nixon: Mr. Westcott, I was interested to hear from you. Perhaps I should have known the promises that were made about a 10-year phase-in by the federal government and then the dishonouring of those promises by the federal government. I was looking at the news clippings in front of me from the November 12, 1987 Globe and Mail, talking about the General Agreement on Tariffs and Trade decision. You said at that time, or you were quoted as saying, "'The complaints made by the Europeans are unfounded and ridiculous, given the sales performance they have managed to achieve here and their subsidies....We are confident that the federal government is going to reject the decision and reject it strongly and we'll then have the subsidy issue pressed in a meaningful way. Canada is going to draw the line.'"

Then, of course, on top of that I have the Globe and Mail again for February 27, 1988. The headline is, "Ottawa Won't Fight GATT Decision on Beer." It sounds to me like you have been sold a bill of goods. Yes or no is fine.

Mr. Westcott: I cannot answer that with yes or no. I have to be optimistic or I would not come to work in the morning, obviously. I think what has happened.

Mr. Ferraro: You must drink a lot of your own product.

Mr. Westcott: As much as possible. What we have to realize is that, while the industry may be under threat from these two different directions, to suggest that they are exactly the same is not true. Until Ontario and the industry came up with this 12-year transition program, I think a lot of us were wondering what would happen. Certainly for the provinces in which grapes are produced--Ontario, British Columbia and Nova Scotia--it has provided a



basis for talking about courses of action.

The trade issues are not simple; they are not straightforward. What you read in the paper is not a true sense of what may or may not happen.

When we went to Brussels to attempt to negotiate a way through this situation with the Europeans, the federal government--I am not saying it would not accept the panel report but it suggested that Canada needed some time. So there was a shift.

As for what happens on March 22 when the GATT council meets to consider this report, along with the west coast fish report, I cannot say what Canada is going to do.

Mr. J. B. Nixon: Are you persuaded that the federal government is doing everything it can to pursue negotiations to change this position taken by GATT?

Mr. Westcott: I think they were. I think that part of it is over. We are at a different stage.

Mr. J. B. Nixon: They were, but they are not now?

Mr. Westcott: No, simply because the rules of GATT have pushed us along to the next phase of that.

Mr. J. B. Nixon: Following up on that, to a certain extent--quite rightly, I think, based on what I heard from you--you have relied on the federal jurisdiction, the federal government, to perhaps not protect but at least give you some assurance as to the continued existence of the industry.

Mr. Westcott: I would call it fair consideration.

Mr. J. B. Nixon: Fair consideration. And my editorial comment is that it seems you have experienced some disappointment in that regard.

Mr. Westcott: I think that is a fair comment.

Mr. Ferraro: The understatement of the year.

Mr. J. B. Nixon: I do not want to put words in the witness's mouth.

On page 6, though, you talk about how people in the winery industry must respond by altering how they conduct their businesses. At least two of those four proposals specifically use the word "national," as in "national production regulations" and "marketing and selling on a national scale." To my mind, implicit in the other two is a national program or national legislation, or national policy development is required to permit you to pursue those four policy directions, if you will. You talk about national production regulations and you talk about a national marketing program, which you specifically cannot do under existing provincial legislation.

Mr. Westcott: Right, exactly.

Mr. J. B. Nixon: My question to you is, have you had any assurances whatsoever that any of these national programs or national pursuits you propose would be acceptable and approved of and promoted and secured by the existing national government?

Mr. Westcott: There are a number of initiatives at both the provincial and federal levels which appear to be attempting to address those. For example, one of the difficulties we face is interprovincial barriers, which give us a very fragmented industry across the country and make us high-cost producers versus people in California who operate on a single-plant basis. Clearly, the elimination of those barriers and the consolidation of the industry into reasonable production facilities is something that is extremely important.

Prior to the signing of the agreement, we documented that issue, the marketing board issue, and about five or six significant issues for us that needed to be addressed, we thought, before the deal was done. They were not, and so the need to address them now is even more urgent.

Interprovincial barriers is one issue where a committee has been struck at the federal level. In raw material sourcing, there is a joint effort between the Ontario Ministry of Agriculture and Food and Agriculture Canada to try to look at that.

I think that if we can increase the opportunities in those areas, then they will help us. The question is time. If this exercise takes several years to accomplish, and we are squeezed by the timing of the agreement, it may not make any difference. So the urgency is quite significant.

The expansion of wine marketing and retailing means that we are going to compete with people whose base of operations is quite different to that of Ontario or of any other part of Canada. Without getting into the pros and cons of it, we are quite heavily taxed in this country. The revenues that the provinces raise from the sale of beverage alcohol go to do a number of things. The people we are competing within California face a far lower rate of taxation.

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Mr. J. B. Nixon: Presumably, those taxes go with the implementation of the free trade agreement.

Mr. Westcott: I do not think so. I think what free trade says is national treatment.

Mr. J. B. Nixon: So they could be raised to the American and European levels.

Mr. Westcott: What that means is that at some point we will all be taxed on the same basis. Whether there is a difference between our products and the Americans' today in whatever happens--

Mr. J. B. Nixon: Let me follow it through, though. I am sorry to interrupt. Essentially, you are advocating the removal of interprovincial barriers, which would be the removal of provincial taxation; that is, Manitoba, Saskatchewan and all the nonwine-producing provinces, other than for imported concentrate, all those jurisdiction which do not impose necessarily the same level of taxation as we do, would remove them. What you are really talking about is a rationalization of the industry required by the removal of interprovincial trade barriers so that the wineries in Saskatchewan that deal with concentrate or the wineries in Quebec that deal with imported concentrate and the breweries in Newfoundland, Prince Edward Island, Saskatchewan and perhaps Alberta should be eliminated.

Mr. Westcott: No, definitely not.

Mr. J. B. Nixon: They do not make economic sense, though.

Mr. Westcott: We are not talking about customs duties here, at least at this point. It is entirely legitimate that a province's taxation policies will continue to stand, and also Canada's taxation policies. The point I was trying to make is that we have been hindered for a long time in our ability to get out there and promote drinking of wine, the purchasing and consumption of wine. We do not have the same funds that are available to us because we carry a much heavier tax rate than is carried by our competitors in many other countries. The fact is, whether it is the tax rate on the product or whether it is the corporate tax rate the winery pays, at the end of the day our businesses in Canada have less money to go and promote our products and have less money to invest in capital projects and in expansion.

It is a complicated issue, but in that sense we are competing with people who have a relatively free hand, carry a relatively light load, tax-wise, have great flexibility and have a lot of opportunity to spend their money in a number of different ways. We have had a tougher row to hoe to promote our product and interest Canadians in drinking wine than, say, people in California.

One of the ironies of free trade is that I do not think we are going to see any improvement in prices for consumers whatsoever. Provinces derive significant revenues from the sale of beverage alcohol, revenues which are put to--touch wood; I may come back on another committee--good uses, roads, hospitals and social services. We have made that tradeoff in Canada. I cannot see provinces, whether it is Ontario or any other province, necessarily giving up those revenues by reducing markups on American products and perhaps putting those revenues in jeopardy, because they have to be replaced. They are valuable and they do important things.

The reality is that instead of prices for American products going down, I think it is reasonable to assume that what is going to happen is prices of Ontario wines are going to go up. There are some examples. We have had some provinces that have moved to markups between Canadian and imported products that are almost the same. In every case, in Newfoundland, Alberta and some of the other prairie provinces, the domestic prices and the domestic tax rates have gone up. The imports have not come down.

Mr. Chairman: Complementing that argument, I have a letter from Brian Nash, chairman of the Ontario Grape Growers' Marketing Board that I think may have been sent to all members. It says, in part, "Equalizing markups of wines in Ontario means that the price of Ontario wines will go up while the treatment of foreign wines will stay where it is in line with the other provinces." He is giving the same argument you are.

Mr. Haggerty: Following up on the previous questions raised to Mr. Westcott, on page 6, you give four items that you thought you may improve or provided with the opportunity you can improve in the marketing of Ontario wines within other provinces. Are there presently trade barriers within the provinces as you are trying to market wine, say, from Ontario in Quebec or other provinces? Do you have any difficulties in this area?

Mr. Westcott: Bearing in mind that I also wear a national hat, Ontario is probably the most flexible province in terms of wines from other provinces. For a long time, we have listed Canadian wines from British



Columbia, Quebec and a few other provinces. It has been very difficult for wineries in Ontario to go into other provinces and sell their products, get listings and get their products on liquor board shelves. In most cases, if you wanted to do that in any kind of serious way, you wound up building a plant there. You put a winery in and you employed people.

As a result, the national companies have something like 20 wineries across this country to serve a market of 25 million people. It is not quite the same today but it is almost the same. The three largest companies in Canada had 19 plants in 1986 serving 25 million people. The three largest wineries in the United States had 19 plants serving 250 million, because they also served a lot of the military offshore.

Clearly, if we are going to have a competitive industry, we cannot afford some companies having eight wineries with eight wine makers, eight labs, eight crushing machines and eight bottling lines, etc. There has to be a rationalization of that to take advantage of economies of scale and those kinds of things.

Mr. Haggerty: Are there any barriers if you want to move Ontario wines into the United States?

Mr. Westcott: Absolutely.

Mr. Haggerty: Absolutely what?

Mr. Westcott: Yes, there are, definitely.

Mr. Haggerty: Will that be removed under free trade?

Mr. Westcott: We are told it will be, and there have been a number of cases in the United States. In the most recent one that comes to mind, the federal government took some states to court over state practices. The federal government won the case. Some states changed, but many did not. Some states that did make the changes simply introduced legislation which accomplished the same thing but in a different way.

Mr. Haggerty: In other words, there will be trade barriers within the different states.

Mr. Westcott: I think so. The difficulty is that we are a small industry. It is going to be very difficult to justify going into individual states in the United States to fight to remove those barriers. It is just going to be prohibitive. It will not happen. Therefore, we are left with a barrier that remains.

In the United States, there are labelling barriers and there are distribution barriers. You have to have an importer in most states and you have to have a wholesaler. They have significant bonding requirements. It is difficult, and those are quite apart from the controls that are exercised over the industry by the large players in the United States, who in many cases control the distribution networks, which is an even tougher problem to get at.

Mr. Haggerty: Under the present trade laws of the United States, the Americans have defined it as what they call the grape industry. Particularly when they are dealing with trading, they have indicated the grape industry, but the grape industry includes wines, wine concentrate, home grapes--I am talking about table grapes--and raisins. I understand in Ontario one of the

biggest markets is for purchasing offshore grapes to make local wines in the private sector, you might say. If you take all that under one umbrella, we in Ontario do not call it the grape industry, we call it the wine industry.

Maybe that is where we are making our error or mistake in this area, in saying the wine industry. We should be looking at the grape industry in Ontario. I suppose if we used the argument that they are using in the United States, we could show that we are being most lenient in allowing imports of foreign wines to come to Ontario.

One of the members talked about the tender fruit industry. Grapes are a tender fruit in Ontario, but we see the tender fruit industry going by the wayside too since the large American corporations bought out Canadian Cannerys, for example. We see no canning, or very little of it, in Ontario. It is all fresh fruit, in a sense, but we are buying all of that in. If you walk into the stores today, you will see the grapes are a product of the United States. That is day in and day out, 365 days a year that you can purchase the grapes. It supports the grape industry, but if you look at that, particularly alone, you will see there is definitely a trade imbalance right now without even having--

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Mr. Westcott: Absolutely. We have pointed out repeatedly for many years that the volume of materials coming in to satisfy the home wine market in Ontario is about three times the total production of grapes in Ontario. That Canada has never moved to encourage Canadians to utilize domestic products is unbelievable. They do not ship grapes any more; it comes in five-gallon pails. It has become a big business.

I think Canada, from the figures I saw, every year imports about 175,000 tons for the home wine market. Why does Ontario not buy only 35,000 to 40,000 tons maximum? It does not make sense. We do not have the opportunities in raisins, as they do in California. We do not have the opportunity, to the same extent, in table grapes because of our season.

It galls me that a competitive product comes in here, competes with us and pays no tax whatsoever--none. It is particularly upsetting when we look at the tax load we carry. I have to say it disturbed me when Ontario moved to allow the use of home wines in licensed establishments and banquet halls. I do not see the logic in that in any sense whatsoever. We have been urging that the issue of home wines be looked at for some time. It is a very difficult political issue, I guess.

Mr. Haggerty: I am not singling out the home wines.

Mr. Westcott: It is the single largest.

Mr. Haggerty: All I am saying is that the grape industry in California has a larger market here than our own industry has.

Mr. Westcott: Absolutely, very much so.

Mr. Haggerty: Really, they probably look at a single industry or single product. They have a good market in Ontario.

Mr. Westcott: Canada is unique in that, unlike a lot of other countries, we think of wine as an alcoholic beverage; most other countries of the world think of wine as a food product. It causes difficulties for us.

Mr. Chairman: You indicated that we are not able to produce raisins for climatic reasons.

Mr. Westcott: I am not a raisin expert. I think there are two factors. First, our growing season is a little bit shorter and the sugar does not build up in the grapes sufficiently. The second reason is that a big part of raisins is drying. We looked at drying them under forced circumstances. Using gas heat, the cost would be prohibitive.

Mr. Pelissero: I appreciate your frankness in terms of the four areas that you feel would have to be addressed in order for the wineries to compete. In answer to Mr. Mackenzie's question in terms of sourcing raw product, both on competitive prices and quality, while I do not think there would be anything ever stated, because the Ontario Grape Growers' Marketing Board is a negotiating board, it certainly would add pressure to the individuals who were negotiating on behalf of those farmers when they know what the price can be sourced for in California and what they are going in asking and reflecting what they feel their true farmers' cost of production is in relative terms. Taking into consideration the labour, the safety support programs we have in place in Canada versus the type of labour they are able to employ in the United States is just one example.

The question I have is with regard to number 4, "Expansion of wine marketing through retailing and merchandizing practices taken for granted in most other industries." I am assuming you are talking about beer and wine in corner stores on that one?

Mr. Westcott: Definitely, yes. We have been after some changes which we think are reasonable, legitimate, not difficult to do, that would allow us to market out products more efficiently and better serve consumers and the public. Having wine available in grocery stores, we think, would do that because it would increase the linkage between wine and food.

Studies in North America indicate that 85 per cent of wine that is consumed is consumed with a meal. In today's environment, anything you can do to increase that use of our product would be a good thing, and we think it would help in volumes as well.

There are lots of other things. Let me give you an example. The Napa Valley is famous in the world today for being a tourist area that supports grapes and wineries. They are promoting Napa as a tourist destination and they have been having great success. They put a lot of people through there. It enhances the reputation of Napa and California producers.

We have in the Niagara Peninsula a critical mass of wineries and we need to be capitalizing more on the tourist potential of those. Last year we put something like 200,000 visitors through our wineries and gave them interesting and informative tours about grapes and wine, the process and all that sort of stuff, and we did not charge anybody anything. The tours and the visits last anywhere from 15 minutes to two hours. Many of the companies have spent a lot of money preparing materials, video presentations, etc., and we think there are some things that could be done that would maximize the opportunities there.

As one small example, we cannot open our wineries on Sundays. Yet if you drive through the Niagara Peninsula, particularly down the Niagara-on-the-Lake area, I think you are all familiar with the volumes of tourists who go to Niagara in the summer and fall. That we cannot open our winery facilities and



the stores there seems to me to be crazy. We want to try to help our industry, recognizing the difficulties with opening stores on Sundays and everything else.

It is a very small thing. We have shown for a long period of time that we can manage retail operations very well. We operate over 200 stores in this province without incident. In many cases, we operate under stricter regimens, self-imposed, than does the Liquor Control Board of Ontario.

There are lots of things like that--credits cards. We find that a tremendous number of Americans coming back from spending a weekend or time in Toronto drive back through the peninsula and stop at a winery on their way back. They do not have any cash in their pockets, or they do not have a lot of cash, and they do not want to use up all their cash until they get to the border. But we cannot sell them a case of wine to put in their trunk and take back to New York, Pennsylvania, Ohio or wherever they are coming from and let them put it on their Amex. It is kind of crazy, particularly when that guy can go into a licensed lounge someplace anywhere around there and spend all day in the bar drinking and put that on his American Express card.

These are not simple issues and they are linked into a lot of other things, but there are lots of things that could be done to help us promote our products.

Mr. Callahan: I thought you were not supposed to leave home without it.

Mr. Westcott: Those are just two small examples. There are many others.

Mr. Pelissero: A quick question. Would the wine council be willing to initiate an action against the European Community wineries in terms of dumping action, recognizing that grape producers cannot do so because it is a like-for-like product?

Mr. Westcott: See me next week.

Mr. Neumann: I wonder what the size and the extent of the European subsidies are. How do they compare with provincial markups?

Mr. Westcott: I guess the difference is that the markups in Canada are very much up front. They are transparent, and everybody knows that on a bottle of European wine you pay 66 per cent markup and on a bottle of Ontario wine you pay one per cent. It is there. It is exposed. That is why we are in trouble. I have said quite a few times that the difficulty with us as Canadians is that we are all good Boy Scouts. We always want to play by the rules, do the right thing and lead by example, and we get whacked on the chin a lot.

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Just a couple of quick things on European subsidies. In 1978, according to their own numbers, their subsidies to the grape and wine industry, paid by the community, were about US\$80 million. By 1984, the last year for which the figures are available, those had grown to US\$2.7 billion.

I do not think when the 1979 Tokyo round of the GATT was signed, anybody contemplated that there would be that kind of growth available, a growth in

subsidies. What it is doing is creating tremendous surpluses of products, and not just in wine. We hear about the mountains of butter and we know we are having problems in a number of areas. But in our case, it is producing surpluses which are distorting world trade in wine, not only in Canada but also in the United States, in South Africa and in Australia. Everybody is upset about it.

In 1987, the largest subsidy program in the Europeans' operation was distillation. They take a product off the market by distilling it into alcohol. In 1987, the target for distillation was one billion gallons. That is 50 per cent more than everybody in Canada and the United States drank in 1986. We consumed just over 600 million gallons. Their surplus is one billion; actually, it is a billion plus, just a little over that. The world cannot keep that kind of thing going.

I was in Ottawa yesterday and I made the point that, if you go to different parts of Canada, there are increasing numbers of people who perceive that they are being harmed by the Europeans. You know what they are going to talk to you about in the Maritimes; you know what they are going to talk to you about on the Prairies. We have wine interests in Ontario. We also have pasta people. I was talking to a hog producer last night who was very disturbed. How much longer can we go on paying \$1 billion, for example, to our grain farmers? I, as a taxpayer, just on a personal level, object to that. That is not the solution.

Subsidies in Europe are huge. We are going to address those. As I say, next week we will be taking some action.

Mr. Neumann: Have I got time for one more? You mentioned, in point one in your four-point program for survival on page 6, raw materials sourcing, based on competitive prices and quality, and there were some questions asked of you around that. Why would you bother? Why not just manufacture in the United States and ship it up here if there is no tariff?

Mr. Westcott: First, because we are Canadians. Second, because we have been here a long time. We have been through a lot of these kinds of machinations.

Mr. Neumann: Do you understand the point I am making?

Mr. Westcott: I do.

Mr. Neumann: I am being a little bit facetious here.

Mr. Westcott: I understand that.

Mr. Neumann: The point I am making is, is it not cheaper to ship up the wine than it is to ship in the raw material?

Mr. Westcott: It may be. I guess, apart from the emotional things, there is the business aspect. We have tremendous investment in Ontario. We also recognize that--I am not aware of any wine-producing areas in the world that are based solely or exclusively on somebody else's grapes. They do not exist. The trick is to get our growers producing better and more efficiently, and we think it can be done.

It cannot be done like that. There has to be a reasonable amount of time to help them make the transition. If we go out tomorrow and offer to buy

grapes for comparable prices in California, the growers cannot survive. There has to be a period of time in which they can make the transition, just like wineries can make the transition. I think that is a reasonable thing.

In most other countries that have gone through these kinds of quality and pricing transitions--France is a good example--they have taken 50 years. Fifty years! They banned varieties of grapes in 1938. I just looked at some material that shows that in Europe, in France, in those banned varieties in 1938, they still have over 25,000 acres of those grapes growing. It is a tough thing to change, but we have to be given the opportunity to do it.

What we are saying is we are prepared to commit our capital and our talents and our businesses to try to make it. Do not chop us off before we get a chance to have a whack at it.

Mr. Neumann: I want to commend you and the industry for the tremendous improvement that Canadian wines have had in the last several years.

Mr. Westcott: Thank you very much.

Mr. Neumann: It has been remarkable.

Mr. Chairman: Finally, Mr. Ferraro.

Mr. Ferraro: I have one question. Mr. Westcott, you are quoted in a December 1987--I think it was--Toronto Star as saying, when the announcement came out obviously, "'The industry has been used as a bargaining chip,' Westcott said in an interview last night." Another quote, "The federal government does not give a damn about the wine industry, or agriculture, or grape growers." So I do not think anybody should be surprised that that is reflected in the text.

When I go through your report today, which I enjoyed, it appears, I think it is safe to say, that it is a little more mellow in its direction. Having said that, Mr. Westcott, I understand, from a business standpoint, perhaps why you want to take that approach, although some political parties would probably say you should fight like hell to the end.

My question is why you have changed. Was it because you realized the predicament and the realities, if you will, of January 2? Or was it because, as I have read in some articles and some Progressive Conservative members have said, some wine industries or businesses per se are in favour of it, and indeed your membership was not in total agreement? Or was it a combination? Could you expand on that?

Mr. Westcott: I think there are several reasons. Without putting too fine a point on it, this is a war that has several fronts. One of them is south, the other one is east. I do not think we can afford to--and in most cases, carriage of this war, this campaign, lies with the federal government.

Mr. J. B. Nixon: But they have surrendered.

Mr. Westcott: Well, several things have happened. Ontario has come out with a proposal for a 12-year plan, which is a reasonable one.

Mr. Ferraro: Except nobody accepted it.



Mr. Westcott: It ain't over until it's over. As I have said, I think we are solidly in the middle of what is going on.

The other reason is that since negotiating the deal, the federal government has reacted to statements like those in the media, and I guess it has been stung. We had Mr. Clark, Secretary of State for External Affairs, down in the Niagara Peninsula and he made a very strong speech about how the federal government was going to make assistance available to--

Mr. Ferraro: Yes, but why do you trust him now? He led you down a garden path for the last two years. Now, all of a sudden, you are in bed with him.

Mr. Westcott: I think that is going a little far. We are participating, as is Ontario, as is British Columbia. Everybody is sitting down at the table trying to see where it is going. Where it is going I do not know. These are awfully expensive transition programs that we are going to be talking about. I guess, being a good Christian, I am turning the other cheek and giving them an opportunity. Let us hope they pick up on it.

Mr. Ferraro: Thank you very much.

Mr. Chairman: Maybe there is not that much alternative at this stage.

Thank you very much for your presentation. It was obviously well received, well listened to, and we will take it into consideration.

Mr. Westcott: Thank you very much. We enjoyed the opportunity.

Mr. Chairman: We appreciate the time and effort you have put into it.

The next group we have patiently waiting there--and we appreciate your waiting--is the Canadian Printing Industries Association: the director of government relations, Massimo Bergamini; president, Miss Willy Cooper; and the president of Consumer Printed Products Group, McLaren, Morris and Todd Ltd., John Morris.

We have in front of us the submission from the printing industry. Who is going to speak for you? Miss Cooper, would you perhaps lead us through your submission and then entertain some questions?

#### CANADIAN PRINTING INDUSTRIES ASSOCIATION

Miss Cooper: OK. I have prepared some commentary and I think what I will do is first read through my commentary. I will ask Mr. Morris, as an industry representative, to speak specifically to the industry. I will be speaking primarily through the views of the association and the industry it represents. Mr. Morris will be speaking as a printer, an integral part of the industry. Mr. Bergamini will be walking you through the paper.

I think what we would like to do would be to give a verbal overview and perhaps, as we are speaking, it will give the committee members a little bit more time to review the text and be familiar with what is there. Then Mr. Bergamini will go through it and each of us will be available to answer some questions.

Mr. Chairman: Very good. Thank you.

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Miss Cooper: I would like to thank the standing committee on finance and economic affairs for giving us the opportunity to appear here today and underscore the concerns of the Canadian printing industry vis-à-vis the Canada-US free trade agreement.

Before I delve into the subject, however, I would like to share with you some little-known facts about the printing industry. According to Statistics Canada information for 1985, the industry is the 10th-largest manufacturing sector in Canada and seventh-largest in Ontario. With some 3,800 firms, printing ranks as the largest industry in Canada when measured in terms of establishments. Ontario houses just over 47 per cent of these establishments, for a total of 1,804.

As well, the printing industry generates revenues of over \$5 billion annually. In Ontario, total sales in 1985 were \$2.9 billion or 1.8 per cent of the gross domestic product. Finally, and perhaps more important, with 65,000 employees, it is the fourth-largest employer in Canada. Of these, almost 37,000 are employed in Ontario. Clearly, then, the printing industry is one of Canada's and Ontario's most important and economically vital manufacturing sectors.

Contributing to the industry's present strength are the existence of a viable Canadian publishing industry, government print procurement, the commitment of the federal government to regional industrial development and a favourable exchange rate as well as tariff protection of the domestic market. With the exception of the exchange rate and of government print procurement, all these are, in one way or another, directly impacted upon by the bilateral trade agreement.

The final agreement does not recognize the importance of these factors, and the result, we fear, will be direct employment losses throughout every community in Canada and indirect losses in employment in related industries. For example, with Canadian printers consuming about 50 per cent of all printing, book and fine papers manufactured by paper mills in Canada, it is not difficult to predict that any slowdown of activity in the printing industry will negatively impact on the pulp and paper sector, and the same, of course, would hold true for other support industries.

Export trade in printed products is conducted primarily with the United States. In the context of free trade it is, therefore, important to compare the competitiveness of our two industries in order to fully assess its impact. In many ways, the Canadian and American printing industries appear similar. To conclude, however, that the Canadian industry is a mirror image of its counterpart to the south would be a serious mistake.

Important differences do exist and they affect our competitiveness. For example, large US firms tend to have fewer manufacturing locations than do their Canadian counterparts. Typically, such facilities are dedicated to the production of huge quantities of a limited number of product lines. This has allowed for economies of scale which are impossible in Canada because of the modest size of our domestic market and its segmentation into two linguistic groups.

Canadian printing companies, on the other hand, often have a large number of plants located across the country producing a wide variety of

products for local and regional consumption. This has resulted in higher operating costs for printers but a more diffused industrial base for Canada.

In addition, the Canadian printing industry is more heavily unionized than its American counterpart. At present, there is a notable movement towards decertification in the United States which, coupled with the movement of manufacturing facilities to right-to-work states, means that wages have grown at a slower rate in the United States than in Canada. Without arguing against our labour laws, it is, nevertheless, important to recognize that they provide Canadian workers with a measure of protection and advantages not available in many American jurisdictions.

Productivity has also been lower in Canada than in the United States. This difference in some measure reflects the fact that the larger American plants account for a greater share of the industry's total output and, therefore, achieve greater economies of scale. It is also due to the shorter printing runs in Canada associated with the segmentation of the domestic market into two linguistic groups.

The further factor explaining the competitive advantage enjoyed by the US printing industry lies in the level of capital investment which has been much lower in Canada than in the United States. One of the reasons for this has been that the relatively small size of the Canadian market restricts the ability of large printers in Canada to acquire some highly specialized and expensive technologies such as in-line finishing equipment which requires very long print runs to be operated economically.

While Canadian print manufacturers do already have in place state-of-the-art technology, they must invest many millions more to compete with their US counterparts who already have the equipment in place to serve market bases 10 times larger than those currently serviced by Canadian printers. Simply put, then, all these factors taken together point to higher costs of doing business in Canada and a net competitive advantage for the US printing industry. That advantage is eloquently reflected in the massive trade deficit in printed products which exists between Canada and the United States--this in spite of tariff protection which on some product lines reaches 28 per cent--as well as a very favourable exchange rate.

In 1985, \$276.6 million worth of product was exported to Canada by the United States. This amounted to 82.4 per cent of our country's total print imports for the year and Canada absorbed 24.9 per cent of all US exports. In contrast, in 1985, Canada exported \$132.7 million worth of printing to the United States. It was our major market, accounting for 88.9 per cent of all exports.

Much has been said about the US trade deficit, yet those figures clearly show that the contrary applied to trade in printed matter. Indeed, as Statscan figures show for 1984, in the category of books and pamphlets in 1983, the United States exported into Canada 2.4 times that produced in all of Canada, and well over one half of Canadian consumption. In the five-year period from 1979 to 1984, the increase in books and pamphlets imported from the US to Canada was two and a half times the total of the Canadian exports.

Between 1979 and 1984, another five-year period, overall printing exports from the United States to Canada increased by 71 per cent. This is despite high tariffs protecting the Canadian printing market. Between 1979 and 1984--please remember these are all five-year periods--the US trade surplus in printing increased by 45 per cent. US exports of printed matter to Canada are



equal to 37 per cent of Canadian print production and 27 per cent of total Canadian consumption. This is all despite very high protective tariffs for the Canadian industry and a pretty weak dollar.

Given the trade imbalance that exists at current tariff levels, the concerns of the Canadian printing industry with respect to a free trade deal that does away with all tariff protection without first establishing adjustment programs are understandable and real, particularly in the light of the predictions made by the US printing industry that free trade will represent for it almost \$1 billion worth of new business.

The free trade agreement ought to at the very least ensure a long enough adjustment period for industrial sectors such as our own which are at a disadvantage vis-à-vis US competition. Unfortunately, this trade deal does not do that.

I would now like to call on Mr. Morris, president, consumer printed products group, McLaren, Morris and Todd Ltd., to express his thoughts from a printer's perspective.

Mr. Morris: Over the course of the last three months, the Canadian Printing Industries Association made several representations to the Canadian government regarding the impact that a free trade agreement would have on the printing industry. As early as 1985, the views of the association were made known to the then Minister for International Trade, James Kelleher. These same concerns were presented to Charles Stedman of the Canadian Trade Negotiations Office last April, and on December 1 the association submitted a brief to the standing committee on external affairs and international trade in Fredericton.

At the time we had hoped, perhaps a little naïvely, that given the relative importance of our industry, our suggestions and two years of intense lobbying would have had some bearing on the final agreement as it impacted on printing. Unfortunately, except for print procurement which was excluded from the final text, this was not to be the case.

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At the time of the meeting with Mr. Stedman and again before the standing committee, we raised several specific issues. Among these were:

1. That given the currently high levels of tariff protection for many Canadian printed products, a minimum 10-year phase-in period for the elimination of tariffs was needed.
2. That special protection should be negotiated for publishers of Canadian periodicals and books. In the case of the periodical publishing industry, such protection consisted primarily of a retention of the provisions of Bill C-58.
3. That every effort be made to have government procurement of printing not included in the eventual agreement.
4. That the US Treasury restrictions on the importation of lottery tickets into the United States be lifted.

While printing procurement is excluded, the final agreement does not address any of our other substantive concerns. Indeed, as was feared, our industry was placed on a five-year tariff reduction schedule and the "print in

Canada" requirement for deductible advertising expenses found in Bill C-58 has been removed. Furthermore, while US Treasury restrictions on the importation of lottery tickets have been lifted, we have since found that that in no way alters individual state restrictions on the importation of that product, in effect opening one door and closing another.

In most countries, the commercial printing industry is basically domestically oriented, reflecting the nature of the product. For most print orders, buyer and supplier must have easy access to each other in order to proof layouts and copy before the actual printing takes place. As well, in Canada, use of intermediaries such as distributors, jobbers and brokers is limited primarily to specialist printers, which means that much of the international marketing expertise is simply not available to the smaller outfit producing a wide variety of products for a local or regional market.

Because of the nature of the product, then, the free trade agreement cannot of itself constitute a source of opportunity for the Canadian printing industry.

On the contrary, the trade deal flies in the face of economic reality and threatens the viability of key sectors of our industry. It fails to recognize important structural differences between the Canadian and US printing industries which have led to a very real competitive advantage for US printers and, we fear, will result in important dislocation and job loss within the industry.

How important the economic dislocation is will depend not only on the industry's ability to adapt but also on government. The trade deal in this sense constitutes a challenge not only to the ingenuity of the entrepreneur but also to the ingenuity and skills of our political leaders.

The free trade agreement reduces the ability of government to foster economic development through a hands-on approach, as any subsidized manufactured good intended for export would likely invite countervailing action from the United States. Government will therefore have to look for other ways to deal with the inevitable economic dislocations which will follow free trade. To do so, the government will have to expect innovation and creativity not only from industry but also of itself. It will have to accept that the printing industry's current health masks an underlying structural weakness which must be addressed immediately.

As an industry, we believe it will be possible to improve our level of international competitiveness through further rationalization/specialization and modernization. We also recognize, however, that to do so in a time of rapid change, government assistance will be necessary. Labour adjustment programs will have to be devised. Fiscal reform will be needed to foster the capital investment necessary for effective head-on competition with the US. The role of the trade commission certainly will have to be reviewed.

Provincial governments will also have to look to their own programs which impact directly on the international competitiveness of small business and adjust them in light of new conditions which will follow the coming into force of the federal trade agreement.

While we do not endorse the trade agreement, we accept it as a reflection of a commitment on the part of both our federal government and the US administration to freer trade, a principle we accept. We are willing, and indeed we must face the challenge of greater competition. We do not believe

the clock will be turned back. Be it through bilateral free trade or through the more orderly tariff reduction of the General Agreement on Tariffs and Trade approach, greater competition both domestically and internationally will be a fact of life. It will be a fact of life which will have to be recognized both by industry and by government and a challenge to be met by both.

I would like now to call on my colleague Massimo Bergamini to give you an overview of some of the material you have.

Mr. Bergamini: I think the overview is complete. I would suggest that we turn it over to questions.

The Vice-Chairman: Thank you very much for your presentation and your brief. You have stimulated some questions. Let us get right into it.

Mr. Pelissero: Thank you for your brief. I was interested in your last comment, which was not written down but which you verbalized, in terms of not endorsing the agreement but supporting the concept of free trade. I was just wondering why not all of your comments appeared in the printed material given to us, such as your comment with respect to the \$1 billion. I could not find it in here. Is there any reason that was left out?

Mr. Bergamini: These were speaking notes for an oral presentation.

Mr. Pelissero: OK. Fair ball.

Mr. Morris: Would you like our notes?

Mr. Pelissero: Sure. I think it might be useful--

Mr. Bergamini: It is on the record.

Mr. Pelissero: It is on the record and we will get them from Hansard.

Would you comment a bit on the exchange rate in terms of how sensitive that is to your industry and what would be a threshold at which an element of the competitiveness is lost if we were to go to an 85-cent or 95-cent Canadian dollar?

Mr. Morris: Speaking as a printer, I think once we go through the threshold of an 80-cent dollar and approach 85 cents, we are going to be in trouble.

Mr. Pelissero: OK. Just out of curiosity, the \$1 billion comment from the American printers--where was that source?

Miss Cooper: In 1984 the US Department of Commerce did a study for the equivalent of the Canadian printing associations, called the Printing Industries of America, and at that time their project was to determine what the elimination of tariffs would represent for the US industry.

Mr. Pelissero: Into Canada?

Miss Cooper: Into Canada. In 1984 US dollars, the number that was quoted was \$500-million worth of new business. We have added inflation and also the strengthening of the US dollar to bring it up to 1988 terms, and we are saying approximately \$1 billion versus the \$500 million that was estimated in 1984.



Mr. Pelissero: Thank you. That is all.

Mr. Morin-Strom: I thank the printing association for its presentation. I would like to know if you have more complete data on the trade picture in printed materials. The only figures I see in your presentation are that annual revenues now are close to \$5 billion, and you have figures on Canadian exports in 1985. Could you give us more of a direct comparison of exports versus imports and what the trade balance is?

Mr. Bergamini: I think those are the most recent figures available, the Statistics Canada figures for 1985.

Mr. Morin-Strom: Yes, but it is only one side. You have only exports. You do not have imports.

Mr. Bergamini: No, that is correct.

Mr. Morin-Strom: Or I do not see them.

Mr. Bergamini: That is a shortcoming of this presentation. I would be more than happy to forward the appropriate figures to you. I do not have the figures here.

Mr. Morin-Strom: Do you know, roughly, what percentage of the Canadian market is taken by the American publishers or printers? Their exports into Canada form what percentage of the Canadian market?

Miss Cooper: I think I have that here. Statistics Canada are a little behind in getting their numbers put together, so we are able to quote only from 1984 and, at best, 1985. What I have for 1984 is that US exports of printed matter to Canada were equal to 37 per cent of Canadian production, and it represented 27 per cent of total Canadian consumption of printed products.

Mr. Morin-Strom: The total consumption, presumably, is a little more than the \$5 billion, then?

Miss Cooper: We are talking in 1984 dollars, so it would have been probably closer to \$4 billion; 27 per cent of \$4 billion was the Canadian consumption. That \$4 billion or \$5 billion is not strictly Canadian consumption. That is total value of shipments both for domestic use and for exportation.

Mr. Morin-Strom: The Canadian industry has revenues or total sales of \$5 billion a year?

Miss Cooper: Yes. Some of that represents sales to the United States.

Mr. Morin-Strom: A fairly small portion. Here it looks like about \$150 million. So it is pretty close to \$5 billion in shipments to Canadian customers.

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Miss Cooper: The scale of 10 to one pretty well stands within the printing industry, Americans being 10 times the size of Canadians. So if 27 per cent of our consumption is imported from the United States, that

represents a pretty substantial chunk of total imports of printing products here.

Mr. Morin-Strom: Within the printing industry you have 3,800 establishments, you say, but undoubtedly there are quite different components in the industry. Just coming to my mind are book publishing and periodicals versus, perhaps, fine papers and various other categories. Do you have any kind of segmentation information in terms of what the really big components are and whether there are differences in competitive position in different major components of the industry?

Miss Cooper: OK. The numbers we have quoted are representative of just the commercial printing industries. They do not represent the packaging end, which is a very major sector within the printing and allied industries. So that number does not include packaging, although that is a major force. It does not include publishers and does not include newspapers, which are all part of the industry allied to the printing industries. It can be substantially larger if you combine all those others.

Mr. Morris, you probably can respond to this. I know packaging, business forms and commercial printing.

Mr. Morris: I guess I am a little lost. What are you trying to get at with your question?

Mr. Morin-Strom: What I am getting at is whether book publishing is 50 per cent of this industry.

Mr. Morris: No, no.

Mr. Morin-Strom: Or is book publishing not even included in your figures?

Mr. Morris: It is not included.

Mr. Morin-Strom: I am not going to talk--

Mr. Morris: It is just commercial printing.

Mr. Morin-Strom: That is all you are referring to here?

Mr. Morris: That is all we are talking about: commercial printing, not book publishing or any of that.

Miss Cooper: That includes such things as labels, business forms--

Mr. Morris: Catalogues.

Miss Cooper: --catalogues, magazines--

Mr. Morris: Direct mail.

Mr. Morin-Strom: What does the ownership of your industry look like? Is it dominantly Canadian or is it a lot of branch plants with US ownership?

Miss Cooper: We are dominantly Canadian. I am having a problem thinking of any company in the manufacturing end, not the supplier end, that is American-owned. I guess there might be one or two.

Mr. Morris: One or two.

Mr. Morin-Strom: Is there an expectation of the industry's being able to move into the United States either totally or--

Mr. Morris: Move by establishing establishments or by purchasing establishments, and/or by market penetration? I think in selected areas there is. The Canadian industry is going to have to become very specialized in a few product categories in order to compete south of the border. Specialization, from a market standpoint, is going to be the requirement, and that requires capitalization because we are an industry that is producing a wide variety of products at the moment.

Mr. Morin-Strom: Thank you very much.

Mr. Chairman: Just on that point, then, you mentioned that the printers are the fourth-largest employers. Is that in Canada or Ontario?

Miss Cooper: Canada.

Mr. Chairman: Thank you. Mr. Nixon, Mr. Neumann and Mr. Callahan.

Mr. J. B. Nixon: I am not sure to whom I should direct this question, but it is my understanding that many of the workers and employees in the printing business are highly skilled workers. That is correct to say. Have you had any discussions with the federal government, more particularly with Mr. Kelleher, Miss Carney or Mr. Bouchard, about the unemployment that will result from the implementation of the free trade agreement?

Mr. Bergamini: I am glad you are putting this question to us. We will be holding what we call our government affairs day at the end of April this year, and at that time we hope to have the opportunity to meet with selected government officials, certainly the Minister for International Trade, certainly Mr. de Cotret, certainly Mr. Bouchard, to discuss the putting into place of programs that will deal with those concerns.

I am not sure if it is up to us as a trade association to argue for labour adjustment programs. I believe the labour unions will be doing that and have done it and will continue to do so effectively. But certainly we will be talking about the need to deal with that as well as dealing with the level of competitiveness of our industry as opposed to the American industry, with which we have to deal in a head-on kind of basis.

Certainly we will be looking at ways of getting our import costs down and ways of dealing with a certain shortage of marketing expertise that I think we hinted at in our presentation through, for example, a review of the role of the trade commissioners to make that particular trade tool more in tune with the new environment.

Aside from the fact that a lot of these people are recruited at a fairly junior level, the printing process is an extremely complex manufacturing process. To sell effectively you have to know what you are talking about, and I would suggest that, in this as in other manufacturing sectors, perhaps to recruit from the private sector people who have a certain experience, especially at the marketing end, would be a great advantage.



This is the kind of program which would not require massive expenditures on the part of the government but which would be of great assistance to an industry, especially such as our own, where that marketing problem is very real.

Certainly we will be hoping. We expressed the wish to meet with the key federal players. We have sent a copy of this brief to all members of Parliament and members of cabinet and have been receiving some replies, but they have not, I must say, got much beyond the general.

Mr. J. B. Nixon: Do you have any idea or do you have an estimate of the number of workers and employees who will lose their jobs over the period of implementation of the trade agreement?

Mr. Bergamini: I think it is pretty difficult to quantify at the macro level the impact on this industry. The Printing Industries of America is our American counterpart, and on the basis of its projections and on the basis of the US trade department projections, we estimate about 6,500 jobs. On the assumption that we require about \$100,000 to maintain one full-time position in the industry, if indeed those figures are correct, then we are talking about 6,500 jobs.

But again, it is rather difficult to quantify, and I would suggest that one of the shortcomings of this whole process is the fact that the federal government did not undertake any in-depth studies of the impact of this trade agreement and of the lowering of barriers in different scenarios, for example, on industries such as our own.

We have nothing to work with from the federal government, except four or five pages that have been put together by the Department of Regional Industrial Expansion, which I must say is a fairly optimistic assessment of the situation, for obvious reasons.

If there is one preliminary criticism, I think it has to be that one. We would have hoped that a little more homework would have been done.

Mr. J. B. Nixon: Just to pursue this, we understand the workers in your industry are highly skilled. In terms of being able to train them to carry on other types of labour activity, my understanding is that these are people who have been at work a long time and are generally older than the average worker. The general theory is that, in terms of retraining, they are often more difficult to retrain. Is that correct?

Mr. Bergamini: Yes.

Mr. Morris: Yes.

Mr. J. B. Nixon: I just want to offer you one final comment. Mr. Bouchard has nearly half the retraining and skills development budget federally, and Mr. Wilson has said there would be no more money for skills training and development, so I wish you Godspeed in Ottawa. Good luck.

Mr. Neumann: I am still trying to understand the nature of the organization you represent. How many manufacturers, how many businesses are in your association?

Miss Cooper: Approximately 700 manufacturing firms in Canada.

Mr. Neumann: What is the average size of that in employment?

Miss Cooper: I would say 97 per cent of the companies within the commercial printing industry employ fewer than 100 people. We are very much a small business industry.

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Mr. Neumann: With respect to your presentation, on the last page you said, "The printing industry's current health masks an underlying structural weakness which must be addressed immediately." Could you elaborate on that phrase "underlying structural weakness" and what you mean by that?

Mr. Bergamini: If it was not clear, perhaps we can go back to it. What we are trying to focus on is what we perceive, in any case, from our perspective: a net competitive advantage enjoyed by our American competitors because of the size of the market, efficiencies that have developed, lower input costs and a marketing knowhow which is perhaps more prevalent. That, in opposition to our situation, indicates to me a structural weakness when we have to deal with that massive industry. I suggest that is an important structural weakness.

As well, the segmentation of our market into two linguistic groups, which is particular to Canada, leads to shorter runs and so on. I suggest that what we mean by "structural weakness" is the competitive advantage which is enjoyed by the Americans.

Mr. Neumann: So what you are talking about is basically an industry which has structured itself well for the Canadian market, but now that you are facing a North American market, a restructuring of the industry is needed?

Mr. Bergamini: That is right; a fundamental change, I suggest, of corporate cultural to a certain extent. This is something else we are trying to point out. The trade deal of itself, because of the nature of the product, does not constitute a bonanza for printing as an industry from a macro perspective. Obviously, there are certain firms that are already well positioned to take advantage of it, and will. From a macro perspective, it does not.

So how do we turn it to our advantage? We restructure on the basis of the new environment, but we also, as an industry, have to change our approach and focus on export markets more. I am not sure that is possible. When an industry has developed and has grown in this kind of environment, I am not sure you can turn it around overnight, and this is what we are asked to do.

Mr. Neumann: Is your industry fairly diversified in the market? Perhaps I am not asking that well. What I want to know is, what is the largest market share enjoyed by the largest industry in your membership? Would you have an industry within the Canadian context that controls, say, 40 per cent of the Canadian market?

Mr. Bergamini: Do you mean a firm?

Mr. Neumann: A firm, yes, or are they all small?

Mr. Morris: I do not know if we could quote a figure. There are essentially four large companies in the market, but the ability to get the sales is because of having plants spread right across the country.

Mr. Neumann: Would you see the combination of some of these larger firms as a possible way of gearing up for meeting the North American market challenge and competing with American firms?

Mr. Bergamini: I think some of the larger firms will have to very specifically zero in on special products, which they have not done so far because they have been satisfying a very large group of products in Canada. That is potential. They probably have the best opportunity of anybody. At the same time, some of the uniquenesses that they enjoy in Canada are going to be very easily absorbed by US people.

Mr. Neumann: So in restructuring you are not talking about mergers?

Mr. Bergamini: I do not think we would probably talk much about mergers, no.

Mr. Callahan: My recollection of Macdonald's recommendation was that there should be a different timing for reducing tariffs between Canada and the United States. He thought that was very critical. I notice here that you sought that and got half. I imagine that is going to have a very significant impact, particularly on the people you represent.

But the other thing I am trying to think about is, in the United States many of the schools are not subsidized or supported by tax dollars, as ours are. I am sure that within the printing industry there must be professors at universities and teachers at schools who, while they are being employed by these particular bodies, write books which are subsidized and are printed by your groups.

The question I ask is--and maybe nobody can give me an answer--would that not be attacked perhaps as countervail, as an unfair advantage, in that there are funds being provided from the public purse to subsidize the production of those materials? If you sold or distributed them in the United States, would that not be countervail?

Mr. Bergamini: I am not sure I follow the question, but from what I understand, I do believe that publishing will continue to receive assistance, so the terms of the agreement do not really impact on that aspect.

Mr. Callahan: I notice you were protected. The question of government procurement of printing is not included in the agreement. I am not sure if that is broad enough or covers the area that I have just indicated.

Mr. Bergamini: Perhaps you can put the question to us again. I am not sure I followed exactly what you were getting at.

Mr. Callahan: Let us say that professors at our universities prepare books while on the staffs of the universities. They then have them printed by your people and the costs are reflected perhaps within the framework of the funding of those universities. That is not government procurement per se, but it is, in fact, funding or an unfair advantage, because in the United States, most institutions, at least at the lower level, are not funded by tax dollars.

Mr. Ferraro: Like a politician writing a book.

Mr. Bergamini: I think the problem would occur if the printing of a particular book were to be limited to Canadian printers. But indeed, Professor X could decide to have his book printed in the US. There is nothing stopping



him from doing that. I would assume that there would be some problems if subsidies for the publication of the book were tied into its being printed in Canada. I would see that as being a problem.

We are talking about printing and not publishing here. That has to be remembered. If an American printer can bid for the contract for that book, then I do not see there being any problem from the printing industry point of view. From the publishing point of view, that is a different story altogether and I do not think we want to get into it.

Miss Cooper: If I may interject on this question, there is currently free trade in books. There are no tariffs on books going back and forth between Canada and the United States. There was at one time a 10 per cent tariff on books coming from the United States into Canada. It is interesting to note that when that tariff was removed, the growth within a five-year period was two and a half times for the American exporters of books. That is only a 10 per cent tariff.

Mr. Mackenzie: I have a little different question. You are representing a fair number of businesses in Ontario, most of them small businesses. Do most of your businesses tend to belong to the Canadian Federation of Independent Business?

Miss Cooper: Not a lot of them, but I am very familiar with a survey that the Canadian federation did. They surveyed many of their members and the printers were the least supportive group in that particular survey.

Mr. Mackenzie: I guess the same question can be asked of you folk as well, but they will be before us tomorrow and they have a pretty long-standing tradition of arguing before this committee that a large proportion of all of the many small businesses they represent are in favour of the free trade deal.

I guess I am just wondering--that is why I asked how many of your businesses belong to it--whether you are making your voice heard in those ranks. I guess the counter to that is, do you in effect represent the thinking of most of the printing firms that are part of your association? I have doubts in my mind as to the representation in some of the groups that appear before us.

Miss Cooper: I will be very frank. Much like the gentleman who spoke before we did, I guess depending on which geographic area of the country you are living in, the views on the subject of trade do vary.

I hope we have not been misinterpreted here. We are not dead set against free trade. We would have liked to have seen a fairer deal drawn. Specifically to your question, I think in the west there are certain mixed views. In the Midwest, I think they are more supportive of a trade deal than the folk in British Columbia or certainly the folk in Ontario or the individuals in the printing community in Quebec. In the Maritimes, again it is a mixed bag.

We have tried to be representative of the industry, and you will find within the ranks of the industry different viewpoints. But we have tried to keep a very even keel approach to the question.

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Mr. Haggerty: On page 2, you have made some comments about the economics dealing with United States firms and the Canadian counterparts and

you go on to say, "economies of scale which are impossible in Canada because of the modest size of our domestic market and its segmentation into two linguistic groups."

In that comment, are we talking about the French and English concept, printing in both languages? Would the Americans not have to do the same thing if they were going to have a market here under free trade? Would they not have to produce in both languages?

Mr. Morris: Yes.

Mr. Haggerty: You would not be losing the competitive edge in that area then, would you?

Mr. Bergamini: I think what we are trying to say is that they have been able to develop greater economies of scale. They have been able to justify greater capital expenditures than we have because of the fact that they have longer runs because of the size of the market. To compound our problems is the fact that our own market is divided in two. That is the point.

Look, they can print in Spanish in the US; they can print in French. It is not a major technical problem. What we were hinting at is the level of capital expenditure in our industry which is dictated by the size of the market that we have been traditionally serving as opposed to the market that has fostered certain peculiarities and certain efficiencies in the US.

Mr. Haggerty: On page 5 of your brief you go on to say, "Furthermore, while US Treasury restrictions on the importation of lottery tickets have been lifted, we have since found that that in no way alters individual state restrictions on the importation of that product; in effect opening one door and closing another." So you are going to have difficulties in that area. Although they lifted a certain ban coming in under federal legislation, you still have to contend with interstate commerce from one state to another.

Mr. Bergamini: Yes, that is right.

Mr. Haggerty: In other words, based upon those comments, the free trade agreement will not work, because you cannot compete on the open market in the United States.

Mr. Bergamini: There are some states that do not have these restrictions. However, the trade agreement in no way ensures that individual states that do not already have restrictions will not one day decide to protect their own industry, erect barriers to the importation of that product.

Certainly, it does open an opportunity which was not there. This is being phased out in 1993, but today you cannot export lottery tickets in the US. On January 1, 1993, if the agreement is passed, we will be in certain states; we will not be in other states. That is not to say that in the interim, individual states will not be passing legislation and regulations controlling that. It does create a certain element of uncertainty in the export market also.

Mr. Haggerty: Is there any of that uncertainty within the Canadian structure, say from one province to another? Do you have any barriers there?

Mr. Bergamini: Not that I am aware of. Nothing comparable, no.

Mr. Haggerty: You are the only one that is wide open, then, in that you can print across Canada?

Mr. Bergamini: Yes.

Mr. Neumann: I was interested in the comment you made about the restrictions on lottery tickets and the fact that they were removed federally but not at a state level in the United States. Is there any comparison there with the wine and beer in Canada and the requirements at the provincial level? Is there no requirement in the agreement that the federal government in the US requires the states to do that?

Mr. Bergamini: No, there is not.

Mr. Neumann: But on the other side, there is for the federal government to require it in Canada?

Mr. Bergamini: Absolutely. I submit something to you. This is just an anecdote. I do not know how significant it is but I will share it with you for all it is worth. We ourselves learned of this soon after the agreement had been tabled. We learned of this particular interesting little--

Mr. Neumann: Inconsistency.

Mr. Bergamini: --inconsistency through our counterpart in the United States, the Printing Industries of America, which sent a newsletter saying, "The US Treasury restriction has been removed but individual state restrictions remain." I immediately checked it out with someone, a senior individual at the Trade Negotiations Office, who was not even aware of this.

I do not know who the heck was negotiating for us, but I think on this one we got snookered. I submit to you that this is perhaps an indication of areas where, because of an incomplete understanding of the industry and of the whole picture, there are serious inconsistencies in the two regimes, if you wish.

With the wine industry, our provincial governments will have to buckle down to pressure from Ottawa in order to make everything nice and even. Clearly, there is no equal responsibility on the part of individual states to open up their markets to Canadian printers.

Mr. Neumann: But several months passed between the agreement in principle announced in the fall and the final agreement. Did your industry not catch on to this?

Mr. Bergamini: Oh, absolutely.

Mr. Neumann: So our federal negotiators were aware of this problem before the final agreement?

Mr. Bergamini: Oh, absolutely, of course.

Mr. Neumann: And did nothing about it?

Mr. Bergamini: No.

Mr. Chairman: Just a couple of brief questions regarding



productivity. On page 2, your figures seem to end at 1982. Do you have any information as to whether that situation has improved or whether it is still the same?

Mr. Bergamini: We are basing ourselves on the most recent figures. These are Statistics Canada figures. They come from a study done by the Department of Regional Industrial Expansion. I cannot answer that question. We have to use the same information the federal government uses and hope it is the best possible information; we assume that if the federal government is using it, it is the best available.

Mr. Chairman: On the issue of bilingual labelling, would it have been of any damage to us to have tried to skewer national treatment definitions to perhaps force the Americans to have bilingual labels throughout their country so that you could have a good, clean run at competition?

Mr. Neumann: Spanish and English?

Mr. Chairman: Whatever. I was being partly facetious but it had crossed my mind that this would be the only way we could have a completely level playing field.

Mr. Bergamini: I think there are a few other issues or areas that have to be levelled out before we talk about a level playing field.

Mr. Chairman: Thank you very much. You have been very helpful. I imagine that maybe some members of the committee will be trying to get some Instant Hansards before Mr. Bulloch appears tomorrow morning. We appreciate your comments and will take them into consideration.

The next presentation is from the Ontario Coalition for Better Child Care. The president, Laurel Rothman, is here. There is a brief before you. She has been very thoughtful and has given us a very brief brief which is basically in the form of a resolution. Perhaps, Ms. Rothman, you can indicate your concerns to us and entertain some questions.

#### ONTARIO COALITION FOR BETTER CHILD CARE

Ms. Rothman: Sure. First of all, I should apologize. I was not the appointed speaker to begin with. I am the stand-in, so bear with me.

I would like to say a few short words about the coalition, which you may or may not be familiar with. I think we are probably the largest province-wide child care advocacy organization. We have been around since 1981 and, like you, have spent many hours around Queen's Park, at the federal level and at the local level, really working with parents.

Our province-wide organizations--approximately 30 of them--include large organizations such as the Ontario Association of Professional Social Workers, the Ontario Federation of Labour, the big teachers' unions, the Association for Early Childhood Education, Ontario, the Federated Women's Institutes of Ontario, the Canadian Auto Workers, a number of women's organizations and many parents. So I think we represent a fairly wide spectrum of the child care community.

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Like many people, we have been watching for the development of a

national child care policy in Canada, have looked certainly with a great deal of favour, as well as some criticism, upon Ontario's initiatives in the last year, and are very concerned about the potential implications for child care as a result of the free trade agreement.

Let me just highlight a couple of things that are in this brief statement our council resolved in February 1988. Our council, being the governing body, includes all those representatives of all the province-wide organizations. Obviously, I would want to be as clear as possible in saying that we do not consider ourselves trade experts. Probably if you read through a lot of your testimony, there are a lot of things about the agreement on which you are not crystal clear.

We conferred with a number of specialists in the field and there does not appear to be unanimous agreement. However, our concerns around the investment provisions and the implications for the development of commercial child care in Ontario and, quite frankly, the push from the American child care sector, are our greatest concerns.

Let me just say a word about child care. I am not going to read all this. You probably are all having a chance to do that now. Maybe I will just highlight a few facts about American child care and why we are concerned.

Child care policy in the United States is much more poorly developed than in this country and in fact in many of the industrialized and many of the nonindustrialized countries. Indeed, the United States even lacks a national maternity leave policy, which obviously intersects very much with the national child care policy. An effort to establish a national child care policy failed when Richard Nixon's veto of the major bill in 1971 occurred, and an attempt to upgrade federal child care standards was derailed in the late 1970s. There is no provision for funding child care services per se in the way in which we have the current Canada assistance plan with its pluses and minuses. In the Reagan era, subsidies for low income children have become almost impossible to secure.

In the absence of a national policy and public funding, child care in the United States is not viewed in any way as a basic educational or social service, but more as a commodity sold in the marketplace and controlled by the whims of the marketplace. The mammoth gap between services is partly filled by the child care businesses which primarily aim at the middle class market. Increasingly, they are operated by a few multimillion dollar corporations with substantial venture capital and the capacity to expand into new markets.

You are probably somewhat familiar with Kindercare which is, I believe, the only one of the large chains I am aware of that is in Ontario. I would estimate they are the only one in Canada at this time, but I do not know for sure. You are probably aware that currently they hold not only purchase-of-service agreements with several municipalities to offer child care, but they will, as a result of your government's decision to make the direct operating grants available to the existing commercial sector--those that existed as of, I think it was, December 7, 1987--get precious provincial dollars on an ongoing basis, day by day, for operating services. That is something, as you are probably aware, that our coalition has opposed and will continue to oppose.

In the face of increasing public dollars from the federal level, the first time we have really seen the potential for large increases in federal public dollars to go to the commercial sector, that, interfaced with some of

the provisions of the free trade agreement, certainly raises many red flags for those of us who are supporting the development of a high quality and nonprofit child care system; in fact, an area in which Ontario has been in the lead.

I think those are the bases of our concerns at this point. How the free trade agreement will impact on the development of child care, as I said earlier, is a matter of interpretation and conjecture. However, the red flags are dangerous to us. Making a commitment, through the free trade agreement, to an American view of human services would probably be moving us in a direction we would most likely regret in the future. Our sense is that for Canada, child care, like health care and other human services, should not be a trading matter, free or otherwise. That is really the summation of my comments.

Mr. Chairman: Thank you very much. That was very clear and succinct.

Mr. Neumann: We are aware of the problem of lack of availability and accessibility of day care programs for many young Canadian families, particularly for single working women. The proposed national day care program goes some way, perhaps, towards addressing that problem. To what extent do you feel the free trade agreement threatens the establishment of a publicly funded national day care program in Canada?

Ms. Rothman: As we said in the brief statement, our real concern is--right now American companies can come in. They do not get public dollars. They can enter into agreements to serve subsidized children, as they do in many municipalities in Ontario. As I said, they will be receiving that direct grant, much to our chagrin.

Our concern is that while currently Ontario is on record as supporting and funding direction of a nonprofit system in the future, it is one interpretation, and I guess one we are supporting at this point, that under subsection 21(1), if American child care businesses are denied funds available to the nonprofit sector--for example, the capital grants that have never been available to the commercial sector in Ontario that I am aware of, but which will grow; we are now going to see larger capital grants that will go toward building a building, if it is deemed appropriate and necessary in an area and that will go towards workplace day care to assist in that establishment. Quite frankly, they could argue that they would not have reasonable similar access to those dollars as the nonprofit sector has. That is where we see the pressure point and the potential problems with the free trade agreement.

Again, and I have to underline this, obviously we are talking in the realm of interpretation and conjecture and I would not pretend to say that we are experts in this, but that is really where our area of concern lies.

Mr. Neumann: How do the two day care systems currently compare between Canada and the US in terms of private or public funding and the accessibility and availability of day care to lower middle income people? Have you done any studies on the comparison?

Ms. Rothman: I would say there is not a lot of good, formal study, but it is actually something I am going to be giving a paper on next November. I am going to look at it more carefully. What I do know is that the commercial sector has a much larger share of the market in the United States and it is a sector that is growing more quickly. It is probably up to between 60 per cent and 65 per cent. It is growing most quickly in the southwest and the west. In fact, the marketing strategies are much like those of shopping centre



developers, which is what some of their backgrounds are. For example, Mister Kindercare is from Alabama. That is not the only corporate chain. They have a larger part of the market.

It is very difficult to make comparisons because standards are very different. In fact, I would say in general that our standards in many provinces are much higher, certainly in Ontario they are. As far as ongoing operating funds are concerned, there is no such thing as a direct grant, any ongoing support for child care in the United States. There is something of a purchase of service for low-income families, but it is much more minimal than in this country.

Mr. Neumann: Have you received any specific indication that US firms or employers would challenge a Canadian national day care program as being an unfair subsidy?

Ms. Rothman: No, but I have observed one interesting trend. In the last year in my place of employment, I have received a number of calls from commercial entrepreneurs interested in looking at expanding in Ontario. One has gone ahead. It is very interesting. They are several Florida doctors and their chain is called Pedi-care. They were quite straightforward in saying they were very interested in Ontario because it is a rich real estate market and they could develop useful real estate assets while running commercial day care. Two of those centres were opened before December 1987, so we will see Ontario dollars going into that company with the potential for going out of the pocket and back into the United States. I do not know what they will do with their money, but what I am saying is, beginning to see something I had not seen before, certainly from our coalition's perspective, that is not the way we want to see child care develop, nor is it what we have seen as the stated aims of the current government. I do not know if that answers your question.

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Mr. Neumann: I am trying to determine whether your concerns, expressed very strongly, are just fears or whether they are founded on anything on evidence.

Ms. Rothman: No. At this point there is nothing in writing. That is why I did say several times, "conjecture." There is no question that we are dealing in--

Mr. Neumann: So you are alerting us to something that could develop.

Ms. Rothman: Yes.

Mr. Mackenzie: Is it not factual that some of the studies that the coalition has done and presented to the members of all parties indicate that one of the factors in the public, as against the private or profit-making day care, is the fact that the wages tend to be much lower in the public sector? So you could have these people moving in with a demand, and probably getting it, the same access to taxpayers' dollars, and one of the things you are contributing to is a lower wage level in an already low-wage industry, if you want to call it that.

Ms. Rothman: Certainly. We have, I think, been leading in saying how low salaries are. In fact, there was a national study done which showed that salaries in commercial centres across Canada, when compared to salaries in

nonprofit centres across Canada, are significantly lower.

Mr. Mackenzie: I think our continuation to fund the private sector operations is just an invitation to invite the American concerns into this province, and if anybody does not think that will be one of the results, he is out of his cotton-picking mind.

Mr. J. B. Nixon: I am trying to look at the problem that I think you have identified from a very pragmatic point of view. If your feared interpretation of the free trade agreement is correct and there will be an influx of for-profit American entrepreneurial day care operators, do you have any thoughts as to how they could be best regulated, or any suggestions?

Ms. Rothman: They are currently regulated the same way that the nonprofit sector is. I certainly would urge your government to perhaps relook at to what extent direct grants and anything else will be available to the commercial sector. We will continue to look year by year to ensure that that position does not change, that you do not change your mind and make capital grants available to the commercial sector, which you have never done before.

I guess what I am simply saying is, you need to strengthen your current position. Beyond that, I am not exactly sure what you might amend or how you would deal with it in terms of the free trade agreement.

I should not say that. We are obviously seeing the overlap of the free trade agreement and a proposed national child care strategy, and I know in fact that the officials are currently negotiating the terms of that.

I would argue that Ontario has to set itself up for cost-sharing federal dollars for the nonprofit sector only and that now is the time to cut out. In fact, what we have argued in the past is, give yourselves a five-year time frame, or perhaps you need a few more years, and wherever there are purchase-of-service agreements to serve low-income and middle-income families in commercial centres, ensure that there is enough nonprofit service in that community building up so that, over time, the purchase-of-service agreements, the service to the low-income and middle-income families, will go in the nonprofit sector. Sunset it and phase it out over five years.

Otherwise, what you will have is the commercial lobby back at the next whenever they come, just like we come, and saying: "We have one sector, the existing commercial sector that was there in December 1987, about 40 per cent of the market, which is getting the direct grant, and we have a whole new other sector"--many of whom may be US companies--"who do not get the direct grant, and we want to be grandfathered in. We want it too."

We would argue that will fractionalize and disintegrate any move towards a nonprofit system that might have existed.

I should remember to phase out the purchase of service in the commercial sector. That is actually more important. That is the way public dollars pay for real estate of commercial operators--I should say that--the most egregious way.

Mr. Callahan: I think there are two issues there. I chaired the select committee on health and we dealt with day care. I think you are aware of the reasons the provincial government opted to provide certain funds to the for-profit companies. It was because we wanted to ensure they were directly

payable to the child care worker so that the children would receive, hopefully, the same quality of care as they did in the nonprofit sector.

You understand as well, because I think you were here, or certainly I recognize you as having been here, that the difficulty we had was that--I know the figure was unclear--something like 35 to 40 per cent of the spaces available were only available by keeping both the for-profit and the not-for-profit, with the hope that eventually we would be able to go for a full not-for-profit sector. I just want to be clear on that because I was not sure whether other members were clear on that when you said the government was giving operational grants to the for-profit sector. They were not. They are just doing it out of necessity.

It is interesting that you say two ministers assured you that child care was not on the trade table--

Ms. Rothman: As a service; I think that is the key thing.

Mr. Callahan: --and that it had been explicitly excluded from the free trade agreement and then when the agreement came about, there was no specific exclusion of that service. Is that what you are saying?

Ms. Rothman: Yes, that is what I am saying. Here is where I get into the area where I do not claim to be an expert. It is when you look at the investment provision and you think of child care as a business that you get into the issue of what is fair treatment. I quite agree that it is left out of the services altogether. I guess I also have to point out that probably not every interpreter of the agreement would interpret it in the same way.

Our fear is that if Ontario continues to support the development of a nonprofit system and says at some point that it will have no purchase-of-service agreements with commercial operators--say that is the result of next year's deliberations--and that there will be no more additional operating grants to the commercial sector and no this, that or the other, and Americans companies claim, I think the words are "unfair treatment," through the investment provision, not necessarily through the service provision or the national treatment provision, they could in fact have a valid appeal, which would then have to be registered in the dispute settlement mechanism.

Mr. Callahan: I hope that is totally wrong because that creates an entire sphere of a whole host of things the US could come in here and challenge--

Ms. Rothman: Sure, it could be health care; it could be commercial health care or whatever.

Mr. Callahan: Health care. It could be a whole host of things.

Mr. Mackenzie: That is obvious. That is exactly what you are facing.

Mr. Chairman: I think there is a pretty strong body of opinion that we are facing that, Mr. Callahan. It is almost sounding like a broken record because you are the third straight interest group this afternoon that seems to be saying you have been misled by the trade negotiators. Am I interpreting that right? In any event, Mr. Callahan.

Mr. Callahan: That is all I have.



Mr. Morin-Strom: I find it hard to understand how Mr. Callahan can suggest that the grants they are continuing to provide to the commercial sector are not grants, because they are just continuing the policy of the former Conservatives.

Mr. Haggerty: And now for the question.

Mr. Callahan: I did not even pick that up. Maybe it was not worthy of being picked up.

Mr. Morin-Strom: Do you see a distinction between the issue of whether we should have a for-profit system in day care versus whether we should have a for-profit system in health care or in our hospitals or in our school system?

Ms. Rothman: Let me just say this: The coalition has not taken a position with regard to health care, although I would argue that many of our province-wide organizations probably have taken a position independently and would support the development of a not-for-profit health care system. We have, however, clearly stated with regard to public funds to the commercial sector in the education field, and have always said, "Let private schools exist if they wish, but quite independently, and receive no public dollars." So I do not know if that answers your question. That is probably the closest, clear-cut statement we have made with regard to public dollars for the human services.

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Mr. Morin-Strom: Do you see a reason that we have a principle of a universal system of schooling, which essentially provides care and nurturing for our children once they reach the age of five, but we do not have assurances of places of quality care with standardized levels of care and professional staff for our children before the age of five?

Ms. Rothman: No. I would say that it is not clearly stated anywhere. What we have seen now in the last five years are piecemeal moves towards acknowledging the value of education for the earlier years, whether it is the Radwanski report, the new directions in child care or elsewhere. One might hope that we are going towards developing a universally accessible, high-quality system such as what exists in France, but we recognize the province is not going to do that on its own, and we are not seeing those signals, from our perspective, from the federal government. To answer your question, is there a clear rationale? No.

Mr. Morin-Strom: No. So you think that children before the age of five are as deserving of proper and adequate care funded by public authorities as children beyond age five?

Ms. Rothman: Certainly. That is probably the main pillar stone of our organization.

I forgot what I was going to say. Go ahead.

Mr. Morin-Strom: In terms of models, it seems to me that this agreement is linking us not only in economic ways but in social and, potentially in the longer run, political ways with the United States as becoming our model for where we are going to go in a whole host of areas in

the future. Particularly in the area of child care, should we not be looking at other models as being far more appropriate?

Ms. Rothman: Certainly. In fact I think, if anything, they look to us for leadership. I think that social policy is more advanced, accepted and supported in this country than in the United States in general. That is a real generality, but I will leave it as it is.

Mr. Morin-Strom: OK. Finally, in terms of your criticism, I think there may be another area where this agreement leaves an area such as child care extremely vulnerable, and that is how on earth governments are going to fund such a program, given the fact that we already have a higher level of funding for a lot of areas of social and health concerns here in Canada than in the United States on a public basis, when one sees the implications of the move towards economic integration in terms of business competitiveness implying that the pressures are going to be on the taxation side as to how on earth we can compete if we do not have a tax regime which is comparable on both sides of the border. We are hearing from Canadian businesses already that we have to have tax structures here comparable to the American, so we have to bring overall levels of taxation down to the lowest common denominator, which is the American one. Inevitably, does that not mean that if the business pressures say that we can have only the same revenue base as the US, we cannot possibly fund a higher level of social and health care in Canada than in the United States?

Ms. Rothman: I am not exactly sure what your question is, but I might come back and say that we might also challenge the Americans to look at whether they are going to have a health care system or whether we are going to have interest on mortgages deductible. I think it is a larger issue than only the tax rate, but I do not claim to be a tax expert.

Mr. Morin-Strom: I guess what I am getting at is that the overall agreement leads to a melding of policies in all kinds of areas, which inevitably results in pressures for Canada to become more and more like the United States outside the economic realm as well.

Ms. Rothman: We would see that as problematic from many perspectives.

Mr. McCague: You are worried about the American ownership of Canadian child care facilities.

Ms. Rothman: I think we would have to say "commercial." We do not expect any American nonprofits to bother to come.

Mr. Callahan: That is not their thing.

Ms. Rothman: Maybe that is obvious, OK.

Mr. McCague: Right. So would it be fair to say that if Ontario/Canada had a completely nonprofit child care system, you would not be here today?

Ms. Rothman: It would not be that simple. We would have to see. If it were a fully funded system that would make available high quality child care and all the other things we write down, provided by well-paid professional care givers in the way that both our publicly funded school systems provide care throughout Ontario, with equal access not dependent on a

family's income, we might not be here. I would not go so far. I think we have many, many steps in between.

Mr. McCague: Yes, you may have many trips back, the way we are moving.

Ms. Rothman: That is true. We have had many trips.

Mr. McCague: Yes. I would like to ask Mr. Morin-Strom if the question he asked really reflects the new New Democratic Party policy.

Mr. Morin-Strom: Well, does this agreement reflect the right-wing ideology of your party as well as the federal Conservative Party?

Mr. McCague: Oh yes, very much.

Interjection.

Mr. McCague: You will not answer my--

Mr. Chairman: Starting back with Mr. Callahan, I have let this degenerate into a political debate to a certain degree. Do you have any more questions?

Mr. McCague: It was my turn, was it not?

Mr. Chairman: Yes. Go ahead.

Mr. McCague: I am done.

Mr. Chairman: The members obviously were taken with your presentation. We appreciate it very much. It is a concern that I think weighs on the committee's mind, and you may well see it mentioned in our report finally. We appreciate your bringing it to our attention.

Ms. Rothman: Good.

Mr. Chairman: The clerk of the committee has indicated to me, just as a matter of housekeeping, that information services has asked us to give it some input as to how this room might be better arranged for purposes of television. I think that message perhaps can go out to the viewers as well. Traditionally, this setup has existed for many, many years before television. It is very suitable, I think, for hearing witnesses in normal circumstances. There might be something more appropriate for television, and if you think there is, please let the clerk know or, in the case of viewers, please write to the clerk at the Ontario Legislature, Queen's Park, Toronto.

Mr. Callahan: You will be sorry you did that.

Mr. Chairman: For the last four hours we have just been conducting, and you have been watching, the proceedings of the standing committee on finance and economic affairs of the Ontario Legislature. We have been involved in proceedings with the hope of preparing a report to the Legislature, partially at its request, partially on our own initiative, as a result of the federal initiative on a free trade agreement with the United States. That report has been referred to us by the Legislature. Our mandate is to consider



and report to the House our observations, opinions and recommendations on the fiscal and economic policies of the province of Ontario.

The finance committee will be continuing to sit again tomorrow. It is a three-party committee. There are 11 of us. My name is David Cooke. I am the chairman of the committee. There are six other government members--Liberals--two NDP members and two Conservative members.

Tomorrow, if you are interested in watching, at 10 a.m. we will have the president of the Canadian Federation of Independent Business, John Bulloch. Back to back with Mr. Bulloch, at 11 a.m. we will have the president of the Canadian Auto Workers, Bob White. It should be very fascinating indeed.

Tomorrow afternoon, at 2 p.m., we will have the Christian Farmers Federation of Ontario, with Martin Oldengarm, the general manager; at 3 p.m., the National Farmers' Union (Ontario Division) with Raye-Anne Driscove, the general manager; and at 4 p.m., a group of farmers from the Watford district near London, Ontario, in various mixed farming operations will be giving us their views on the free trade agreement.

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Wednesday and Thursday of this week we will not be on television. You will be watching the select committee on constitutional reform, I believe, which will be dealing with the Meech Lake accord. However, if you do have an opportunity to come and see our presentations in person, on Wednesday we will be entertaining Dr. Richard Lipsey, one of the main economists arguing in favour of the agreement, from the C. D. Howe Institute, at 10 a.m.; at 11 a.m., Douglas Mathews of Ferritronics; at 2 p.m., Keith Hyde; at 3 p.m. the Social Planning Council of Newcastle, Oshawa and Whitby, represented by Donald Warne; and at 4 p.m., Brian Nash, the chairman of the Ontario Grape Growers' Marketing Board.

If you enjoy watching the finance committee proceedings on television, please write and tell the three party House leaders. You can write or phone the Honourable Sean Conway at room 193, Queen's Park, Toronto, Ontario, M7A 1A2, or telephone him at area code 416-965-4002, or in Pembroke at area code 613-735-6627. He is the Liberal House leader. The New Democratic Party House leader is David S. Cooke, room 211, Queen's Park, Toronto, M7A 1A2, or telephone him at area code 416-965-6386 or in Windsor, you can get him at area code 519-944-4343. The Conservative House leader is Mike Harris; you can obtain him at room 160, Queen's Park, Toronto, M7A 1A2 or telephone him at area code 416-965-5365 or in North Bay, at area code 705-474-8340.

Mr. Neumann: With all of that, I have a question that some of my constituents have asked. Are you, as chairman of this committee, and the clerk of the committee still receiving new briefs on the free trade agreement, and to whom does a citizen of Ontario send a brief?

Mr. Chairman: That is a good question. We are indeed. It is my interpretation that at the moment we have an open-ended mandate with regard to this. I hope that we will be reporting in mid-spring. But we are indeed still receiving briefs and we will attempt to accommodate briefs and, where possible, live delegations.

Bear in mind that the committee will be restricted in its sitting hours, in all likelihood, once the House starts sitting in April.

The committee adjourned at 4:53 p.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

TUESDAY, MARCH 8, 1988

Morning Sitting

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)  
VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)  
Haggerty, Ray (Niagara South L)  
Kozyra, Taras B. (Port Arthur L)  
Mackenzie, Bob (Hamilton East NDP)  
McCague, George R. (Simcoe West PC)  
Morin-Strom, Karl E. (Sault Ste. Marie NDP)  
Neumann, David E. (Brantford L)  
Nixon, J. Bradford (York Mills L)  
Pelissero, Harry E. (Lincoln L)  
Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Pollock, Jim (Hastings-Peterborough PC) for Mr. Villeneuve  
Sola, John (Mississauga East L) for Mr. Ferraro

Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the Canadian Federation of Independent Business:

Bullock, John F., President  
Swift, Catherine, Chief Economist and Director of Research  
Andrew, Judith, Director, Provincial Affairs, Ontario

From the Canadian Auto Workers:

White, Robert, President  
Gindin, Sam, Assistant to the President



LEGISLATIVE ASSEMBLY OF ONTARIO  
STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday, March 8, 1988

The committee met at 10:01 a.m. in room 151.

TRADE WITH UNITED STATES  
(continued)

Mr. Chairman: Welcome to this session of the standing committee on finance and economic affairs of the Ontario Legislature. The finance committee is meeting this week, as it has met for three previous weeks, to discuss the free trade arrangement between Canada and the United States. The committee has been asked by the Legislature to report to the Legislature on our findings of the agreement which has been signed between the federal government and the United States of America. The terms of reference of the finance committee are "to consider and report to the House its observations, opinions and recommendations on the fiscal and economic policies of the province," and this is part of what we are doing.

Today we are going to hear immediately from the Canadian Federation of Independent Business. At 11 a.m. we will be hearing from the Canadian Auto Workers with Bob White, the president, and Sam Gindin, assistant to the president. At 2 p.m. this afternoon, we will hear from the Christian Farmers Federation of Ontario with Bill Jongejan, the president, and Jack Vanderkooy, the vice-president. At 3 p.m., we will hear from the National Farmers Union, Ontario division. At 4 p.m., we will hear from a group of farmers from Watford, Ontario, near London.

Tomorrow and Thursday the committee will also be sitting, but the television audience will be watching the select committee on constitutional reform which is discussing the Meech Lake accord with a view to reporting back to the House concerning that.

I have great pleasure in welcoming before the committee today the Canadian Federation of Independent Business: Mr. John Bulloch, the president; Judith Andrew, the director of provincial affairs for Ontario; and Catherine Swift, the director of research. Mr. Bulloch, welcome to the committee. You have already distributed to us your brief. Perhaps you could lead us through it and I see you have some charts that may assist us as well.

CANADIAN FEDERATION OF INDEPENDENT BUSINESS

Mr. Bulloch: I am deeply honoured to appear before your committee. Before I proceed, I would like to stress my special gratitude to the parliamentary assistants who work with Rick Ferraro on small business issues in the province, Mr. Pelissero, Mr. Kozyra and Mr. Nixon. I do appreciate your interest and concern. I am happy to recognize you today on behalf of small business.

Our organization today represents 80,000 companies across Canada, about half of them in Ontario. As a matter of policy, we do not take any public positions unless we have direction from the membership. In this way we are always sure that we reflect their views rather than the views of individuals in the organization, our directors, and we have of course been extensively

involved in meeting with the small business community across Canada on the trade debate.

I think you can recognize that to negotiate an international agreement of this magnitude with the United States, the involvement of the private sector was really quite massive, probably more extensive than anything in Canadian history and it involved people from all walks of life. Our contribution was to ensure that the federal government was sensitive to small business positions because the people who were on the committees tended to represent larger firms.

In 1986, we personally interviewed 40,000 companies and asked them the question, "What overall results would a Canada-US agreement to lower trade barriers have on your business?" Roughly speaking, the ratio of positives to negatives or winners to losers was about three to one across Canada in terms of those it would affect directly, and about two to one in Ontario.

That information was then taken to Simon Reisman and his negotiating team. There must have been 100 pounds of statistical breakouts. That was to help them in understanding the small business perspective for purposes of negotiating and for purposes of determining the arrangements for adjustment.

Since the trade agreement has been signed, interest has been intense in the small business community. This pile I have at the end of the table is just a sample of the 3,500 letters and comments we have received and which we have responded to personally. I just brought them to give you a sense of the kind of interest there has been on this issue.

Small businesses get their information from their trade associations and their business associations, from their professional advisers and from their suppliers and customers, so in terms of the things that affect them, they quickly become very informed.

Starting in January 1988, we went back to these people with a similar question. Now the question reads, "How do you think the trade agreement between Canada and the United States will impact on your business?"

We were very pleased that the consultation process and the education process that had gone on in the meantime had significant impact on the results of the small business attitude towards the final deal. There really are quite dramatic improvements. The ratio of positive to negative or winners to losers across Canada is now up to six to one and the ratio of positive to negative in Ontario has moved from two to one to five to one.

I think this should be quite encouraging to the committee, because as you know, across Canada over the last period of time that the federal government has studied it, these small- and medium-sized companies have created 70 per cent, 80 per cent, 85 per cent of new employment.

Looking at the graph you see on the boards here and which are also reproduced as chart 1 and chart 2 in your own copies of the submission, you can see that the number of those believing the impact will be negative has dropped by about half. There has been a significant increase in those seeing a positive response and there was a substantial shift, to undecided, of people who felt originally that the deal would have no impact.

I think what has happened is that in many cases the benefits at first were not obvious, but they are indirect. It is very difficult to appraise



benefits when they come indirectly because you are relying on your customers or you are relying on increased employment in the area or increased disposable income, so there would naturally be a lot of people who originally thought it would have no impact who see that the deal could possibly have an impact one way or the other.

There also was a significant shift of people who were negative originally to undecided. The reason for this is that originally there was no real consideration of a phase-in period and now they recognize that if they are associated with sensitive sectors of the economy, there is a phase-in. Then, depending on how firms handle that phase-in, it could be either positive or negative, so you have a shift from people who were negative to undecided.

For example, if you were a subcontractor to somebody manufacturing snowblowers in Elmira, your first reaction would be that he is going to be hurt, so you are going to get hurt because it has been one of those industries that was protected by a 20 per cent tariff. Then when you see that it is a two per cent adjustment per year over 10 years, you say, "Things may be all right or things may not go well for me, depending on how well the parent company or the major manufacturer adjusts."

The big issues for small firms are the tariff reductions and the improvements in the restrictions on the movement of sales and service personnel across the border. Those are the two big issues in the trade agreement of most impact on small firms.

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Dispute settlement, which has been highly politicized, is almost a nonissue in the small business community. We have known of only one of our members over the last 20 years who has ever been involved in a trade dispute. This is not to say it is not important, but I think it is a great danger to overemphasize the number of people who get involved in trade disputes. Trade disputes have been referred to as the axe murderers of commerce. They are pretty horrible if you get involved in one, but they happen quite rarely. We have had only one case in our membership and we have about 6,000 companies that export directly to the United States.

The sectoral breakout has some additional interest, Ontario data being fairly close to the national data. I was interested to note that the perspective of Ontario manufacturers is not too different from that of manufacturers elsewhere in Canada. The construction sector is feeling very up and so is the wholesale sector. We will be continuing this analysis. We tried to do as much as we could in the short time we were given. At the end of this quarter we will have a much larger sample. At the end of six months, we should have talked to 20,000 people and we will have further massive breakouts on a standard industrial classification code basis so we can zero right in on any particular type of business.

We read members' letters very carefully and they are concerned about the general protectionist mentality that they find everywhere in the world, not just in the United States. They are very concerned about barriers to trade within our own country.

When we asked about adjustment, about six per cent, I guess those who feel most threatened, felt they needed some kind of adjustment. We are looking to an upgraded credit guarantee system in this country. The Small Businesses Loans Act is not acting properly. It could be a very effective adjustment



mechanism without requiring any subsidies and we are working with the federal government to put that in place. We tend to support the view of the Economic Council of Canada that it is better to help people than companies, but that does not mean adjustment mechanisms that are in place cannot be used to assist in this process of change: the Ontario Development Corp., the small business development bond, the Small Businesses Loans Act and so on.

We also found when we were talking to our members that when they talked about trade adjustments, they asked more questions about things that are not related to trade than they asked about trade, because the trade adjustment is really quite minor when you compare it to the international forces that are bearing down on western economies, with new competition from the Koreans and the Mexicans of the world, with the currency fluctuations in the world, with technological change which seems to hit them out of left field on a continuous basis.

When we asked them questions about adjustment, they seemed to be asking as many questions about interest rates, the dollar and sales tax reform as about the tariff adjustments, which are predictable and laid out in a fairly simple manner so that you can understand and follow them. What is more difficult to understand is what is going to happen with the dollar, with interest rates and with sales tax reform.

It might be interesting to members of the committee to take a fairly close look at the budget changes that seem to be technical in nature affecting the operation of the federal sales tax system. They really are quite major in nature. They will have a very significant effect on the Ontario economy because they remove the domestic discrimination that manufacturers face because of the way the sales tax is applied. At the present time, a great number of Ontario manufacturers, and Canadian manufacturers as a matter of fact, face a two per cent to three per cent disadvantage because of the technical application of the sales tax. This discrimination will be removed in changes to be brought forward by October.

At the same time as the first tariff reductions come into effect in January 1989, a two per cent to three per cent disadvantage is going to be taken away from domestic manufacturers that compete with imports. We are the only country in the world with a manufacturers' sales tax. It has some terrible distorting effects we just cannot live with going into the trade agreement. I think the media missed this because it was technical in nature. This is a major change, not Band-Aid stuff. This is a major change in the way the sales tax applies and will have a significant impact on domestic manufacturing.

Generally speaking, gentlemen, we were quite encouraged by this latest study. It shows there is a very optimistic mindset within the business community, more so now that they have the details. I hope that the Premier (Mr. Peterson) will now start to reflect this optimism. We are going to give him a present after this. He can start wearing this jersey. It is in his favourite colours. This is to reflect the positive attitude of small business. I will give him this gift personally afterwards and tell him to start thinking positively. When you portray a positive atmosphere that is based on the facts, it has a pretty positive spillover effect. If you want one too, I will see if I can find one, but this was a gift given to me yesterday.

We will entertain your questions and I will look to my colleagues to help me out wherever possible.

Mr. Chairman: Thank you very much. I am delighted with the results of your survey, particularly the fact that 70 per cent of small businesses in Ontario are convinced that they will not need any adjustment and only six per cent that they will. I think that is very interesting. I should say on the record what I said to you earlier before we started, that Mr. Ferraro is quite disappointed he cannot be here today because he was looking forward to your presentation.

Mr. J. B. Nixon: The first question I have is if, in the course of your survey, you went beyond the general expression of opinion of small business as to whether they were in favour or opposed to the agreement and asked if they had read the agreement. I tend to find in my constituency that once people read the agreement, that significantly changes their attitudes. I do not know whether you have asked the question, "Have you read the agreement?"

Mr. Bulloch: I do not think we would ask that kind of question because in 10,000 years no small businessman is going to read the whole of the General Agreement on Tariffs and Trade. I do not think you will find one out there who has read the GATT agreement or one who would read the whole agreement. What they really know cold is the sections that affect them. If you talk to a guy in the glass business, he can tell you every code number of all the sections affecting glass. His suppliers, his customers and his trade associations zero in on the sectors that affect them. They are very knowledgeable, in answering that question, in terms of how it will affect their business.

If you want to ask them broader questions on how it is going to affect the Canadian economy, we would not feel that would be a good question to ask because I do not think people would respect the answers. How would they know, if they are in the business of making glass, how it is going to affect the Canadian economy? We are trying to ask a question where they have expertise. They have expertise in terms of how it affects their own company, but would not necessarily have expertise on how it affects others. We do not want to try to do more than we can deal with and lose our credibility.

Mr. J. B. Nixon: One of the problems I have as a politician, and I understand one of the problems many of my constituents have as small business owners, and one I think everyone in society has, is looking beyond your own constituency and understanding what will occur in the larger world that is not part of our immediate day. I would ask if you think that small businessmen, small businesswomen, small business owners who are in the wholesale business, particularly those who supply products to larger industry or other regions of the country, have thought about the effects of the free trade agreement on their buyers and what impact that will have on their business.

Mr. Bulloch: Yes, that is where they would have expertise. The wholesalers are one of the strongest sectors. If you look at the breakout data, we have the chart on the agreement on page 8. If you look on page 8, you will see the response of the wholesale sector, both nationally and in Ontario. You will see that the wholesale sector has the strongest support of any other sector and that is because, being little men, they would be trying to find out whether their customers are affected positively or negatively. That was not a surprise, that the wholesale sector was one of the most positive as a result of the improvement in manufacturing and retail over the previous--the data there speaks for itself. They would of course determine their positions based on the views of their customers.

Miss Swift: I would like to add that as part of our research, I



spoke to many of our members personally on the phone and also read many of their written comments in some detail. The thing that impressed me was how much they really did know--I have read the agreement ad nauseam personally--in quite painstaking detail of the terms of the agreement. I was very impressed by that.

1020

Mr. J. B. Nixon: If you look at the Ontario economy in terms of exports and do a little bar graph and look at who are the major exporters from the Canadian economy, you will find that right up there very prominently are the auto manufacturers, and right beside them are the auto parts manufacturers. They are huge bars. They are huge exporters. When you get to other sectors of the economy--forestry, mining, agriculture and many of the small business activities that your members are engaged in--they are tiny little bars and they are very insignificant, extremely insignificant in terms of our international trade and our international exports.

I think the position of the auto parts manufacturers is quite clear, that free trade is disastrous from their point of view. In fact, if you go around and talk to branch plant middle management and senior management people, they tell you quite a different story than do the presidents and chief executive officers. They will tell you they are scared and they believe they are going to lose their jobs and their branch plants will be closed.

I suggest to you that those are two target markets for your wholesale businesses, for your members. If they are saying they are going to be closed and out of business or their business is going to diminish incredibly, perhaps your members are getting a different read on the situation, because their buyers are telling the world at large that they are not going to buy from small business.

Miss. Swift: I think it depends on whom you talk to as well. I have talked to auto parts manufacturers, large ones in this instance, who seem to be looking forward to the free trade agreement. I think there is a big split in the auto sector itself.

Mr. J. B. Nixon: Their association certainly does not say that.

Mr. Bulloch: Their associations is involved in its own politics with which we are not going to interfere. We have statistical breakouts by standard industrial classification code and we have very strong support from auto parts suppliers and manufacturers in the province. This is only six weeks of work. If you had given us a little more time, we would have had time to give you all those SIC code breakouts that we have from the 1986 census, very good data from auto parts, if those are of any use. We will have this same kind of information for auto parts and all these sectors if you will just give us another month or so. They have their own political agenda. I think you have to talk to the companies themselves. You will find that the majority of them support the agreement.

Mr. J. B. Nixon: One final question. Mitchell Sharp, whom you may know of politically, was before this committee yesterday. He commented on the motivation behind the federal government seeking this free trade agreement. He made specific reference to the fear of protectionism. One of the arguments frequently raised to justify this free trade agreement is that things would be



worse without it. That is certainly not a positive attitude to my mind, that if you do not go for this, things are going to be terrible.

He commented that fear is a shaky foundation for policy, that Canada would not be where it is today if our trade policies in the past had been based on fear, and neither would the United States, and simply that protectionism cannot continue for long to be the policy of a great power seeking to lead the free world. I will not go on with that.

How much do you think of your members' motivation to approve or have a positive attitude to this trade agreement is based on fear of what might have been or what might be under the omnibus trade bill?

Mr. Bulloch: It is a factor. On the national basis, it is very much part of the politics of free trade, which runs down a different track than the reality of negotiating an agreement. You cannot ignore the threat that protectionism poses to the Canadian economy. I certainly have never been a supporter of the free trade agreement because of the threat of protectionism. Protectionism will be a problem for three or four more years in the United States and they could do some pretty dangerous things in the mean time, but they should turn their trade deficit into a trade surplus by about the mid-1990s. The exciting and positive thing is that we are on the inside during this process of re-industrialization that is going to take place in the United States.

Their own problems were self-inflicted as a result of their own economic policies. The natural market forces will reverse that over time. We expect that the protectionist pressures in the United States are a phenomenon that may kind of wind down within a couple of years.

The real reason that we are engaging in policies to make the Canadian economy more flexible and adaptable is that the economic forces that bear on Canada are international in nature; yet we, as governments and as nation states, do not have the levers to stop them or control them. The globalization of manufacturing and financial services is as inevitable as the downsizing of the farm. It is going to take place. The question is, are we going to adapt quickly and exercise leverage on behalf of our people, or are we going to try to isolate ourselves from this and let other people adapt and get all the jobs and all the markets?

The trade agreement is an attempt to make the Canadian economy more capable of having a place in this more internationally integrated, competitive world economy and to give us a place in going into the 21st century. I see it very clearly as a long-term strategy to make the Canadian economy a player. This is a difficult political problem because people fearful of change look to their elected people to isolate them from those changes, to protect them, and really, you cannot protect them. When you protect, you tend to hurt them.

The appropriate policies that are what you might call market-oriented or adjustment-oriented are not being put in place for philosophical reasons. It is sound policy to try to make it possible for Canadians, as individuals in their businesses, to be more adaptable, more flexible and more entrepreneurial. The trade agreement will make us a stronger economy that will be more competitive internationally, and that is the real reason.

The debate over protectionism and dispute settlement has forced the government to negotiate its position publicly. Opposition parties then take public positions and you find that the government and the opposition are going

down a track that is a little unrealistic and is distorting people's attention. Protectionism is a serious threat, but certainly US protectionism is not the reason the private sector is heavily involved in the trade agreement; that is more the politics of trade.

Mr. J. B. Nixon: Putting aside the politics, I think the one very happy message you bring is that small business is optimistic. If this deal is coming, it is better to hear that they are optimistic.

Mr. Bulloch: Yes, we are very genuinely joyful. I think those of you who have been following small business issues would feel the same way.

I will tell you something you will find very interesting. Ten years ago, when the Senate committee brought forward a proposal to enter into free trade, the small business community in Canada opposed it--the same kind of position going to the base. Ten years ago, they also opposed opening up provincial barriers to trade. They wanted provincial governments to give local preferences. They have totally changed over that 10-year period. They are 80 per cent opposed to provincial barriers to trade. They are more open. Really, what has happened in 10 years is that one half of all the companies that existed in Canada 10 years ago are gone.

It is just an unbelievable thing if you look at it. We have a younger, more educated, more international, more sophisticated and more technological kind of group out there. The average small businessman today has a university degree and post-grade 13 education. They do not have a narrow view. They are not insecure. The younger our members are, the more positive they are about trade. It is the established members who are more nervous. There is a fundamental change taking place in the structure of our economy and it is moving faster than our political system.

This is so even in Japan. You would be surprised that 58 per cent of the Japanese manufacturers that were there 10 years ago are out of business. What is happening is that every country in the world is going through this dislocation and change.

We can be positive because in Canada we are leading the world in terms of new company formations, and much thanks to the Ontario government, which is very much on top of this process of entrepreneurship in an entrepreneurial culture. For every 100 firms that disappear, 200 are being formed. We are seeing the share of small- and medium-sized employment in Canada going up from 50 per cent when I started this organization in the 1970s--it is now almost 60 per cent--and 80 per cent to 90 per cent of all the employment is coming from new small companies. In terms of business births and business deaths, we are number one in the whole world. So we are a very entrepreneurial society. We are a very flexible, very adaptable people. The numbers we get here are most encouraging and Canadians should not feel pessimistic, because these are the people who are creating all the employment.

1030

Mr. Morin-Strom: In the opening presentation, you made reference to the shirt you wanted to present to the Premier, which showed the United States becoming Canada's 11th province. I wonder if you think it is more likely that may happen than Canada becoming the United States' 51st state, or does it really matter to the small business community?

Mr. Bulloch: I think the individual who is producing these jerseys



is poking fun at the kind of negative attitude that somehow infers that Canadians are second-class citizens and cannot compete internationally.

I am involved in a world organization that involves 60 nations. Canadians walk very proud when they are outside their own country. We have a way of knocking ourselves within our boundaries. Canadians are considered major players on the international scene and are accorded respect from every corner of the world. Canadian businesses are doing very well. I just do not think we should dwell on the negative. The question of Canada taking over the United States and the United States taking over Canada is just silly fun. Of course, both questions are silly.

Miss Swift: I would like to add that in many of the comments I read the whole question of the possibility of losing our identity was specifically addressed, in the sense that members often said, "If I thought there were any risk of our losing our identity or sovereignty through this deal, I could not support it." That frequently came up. Obviously, it is of concern to small business.

Mr. Bulloch: I think it is also very important that we do not mix Canada-US issues with global stuff. We have talked about the Firestone plant. This is the adjustment to the globalization of manufacturing which is going to go on regardless of what you might do as legislators or what they do in Ottawa. This is an inevitable process that is fuelled by armies of educated people entering the work forces each year in the developing countries, by computers and by computer information satellites. This integration process is carrying forward at a pace that will not be stopped.

The real question is, what policies do we put in place to make sure Canada benefits from that process, because if we do not do the right policies, we are going to get hit by it, because the forces are outside of our control? The trade agreement enables us to be more productive and to get the benefits of a larger market. As the world becomes more integrated, our businesses become more specialized. Being competitive and being international automatically mean being more specialized, and being more specialized means the need for a bigger market. Australia has a very dismal 21st century coming up--they know it--because they do not have the kind of domestic market to develop the specialization that is required as we find a piece and a niche in this world market.

Mr. Morin-Strom: I wonder if you could comment on the difference between Canada and the United States in terms of climate for small business, in particular, in the areas of rules and regulations governing small business, programs for encouraging regional development, taxation policy, and whether we are going to have to have some adjustments here in Canada in terms of those areas in order to maintain or improve our competitive position.

Mr. Bulloch: I would say right now that we have probably one of the best environments for small business in the western world. I am very familiar with the economic policy and tax policy of almost all the countries in the world. We have a competitive tax system. Many programs that are developed tend to be directed more to medium and larger firms. There is not a very good program solution. Some of the programs of the Ontario government to help new ventures are really some of the best in the world. There are just incredible success stories. We, on balance, are competitive and I do not see significant initiatives for adjustment.

I see our credit guarantee system not working properly. That is one of



the major instruments for helping small business because they tend to lack collateral. That is a fundamental weakness of smallness. New companies tend to lack collateral. Dealing with our banks, we are very collateral conscious. There is a problem, and I think we could ease the adjustment process generally in Ontario in the economy, if our credit guarantee system were working more effectively. That is about the only area where I am looking for significant improvement, because in most areas, on balance, we are reasonably competitive. You could say we have higher payroll costs in this area, but Americans have higher payroll costs in another area.

Mrs. Andrew: I would like to add that comparing Ontario and the US in terms of regulations, red tape and paper burden, I think the US is somewhat more sensitive to the small business problems in that area. They have a regulatory flexibility act for small business. They have intense initiatives in paper-burden reduction. Those are the kinds of things that we as an organization have been recommending here in this province, that more attention be paid to this problem, because it does hamper small businesses in their ability to grow and create jobs.

Mr. Morin-Strom: Finally, we have a political reality on this issue, which is obviously very much an ideological fight between the left and the right, which has not been tested by the public at this point and is likely to be an election issue, whether this year or next year. At this point, it is not clear whether the agreement will go through on that basis. What do you believe will be the consequences if the public decides to elect a government that is going to tear up or not implement the agreement as it now stands in terms of potential retaliatory action from the United States--

Mr. Bulloch: I personally do not believe--I am sorry if I am being rude. Did I interrupt?

Mr. Morin-Strom: I just want to know. There is a reality that could well happen. What do you think the consequences may be?

Mr. Bulloch: I personally do not believe that either of the opposition parties, if it formed a government, would tear up the agreement. I think that is more domestic party politics than reality because the consequences of tearing up a major trade agreement with your major trading partner would set up a chain of events that would have dire consequences for the economy. I do not think either Mr. Turner or Mr. Broadbent would tear up the agreement if they formed the next government.

Mr. Morin-Strom: So you think there are dire consequences?

Mr. Bulloch: I think there are dire consequences. We have talked with both parties, and both of them say they have not even considered the negative impact economically. It is strictly a political position. I just do not believe either government in power would do it. They would find some reason for softening their position.

Mr. Morin-Strom: Does that imply that the Mulroney initiative, in fact, is holding the Canadian public at ransom?

Mr. Bulloch: No. I am just saying the Mulroney initiative is not a Mulroney initiative. That is another political phrase. This initiative involved the widest consultation on any issue that has taken place in Canadian history with people in all walks of life. If you take the top 200 people, the most knowledgeable people on trade, economic policy and international

business, all 200 of those people are John Turner's colleagues. Would he get different advice? Would he make different compromises? It just does not work out that way. Politically, you might say that it is going to be different. In actual fact, I cannot imagine John Turner negotiating an agreement which would be significantly different and I certainly would not expect anyone to be that irresponsible to rip it up. They can, of course. They have that power. I just do not think it would happen.

Mr. Neumann: I certainly share your expression of confidence in the small business sector and see that as a major income generator and job generator in our economy. You indicated with some enthusiasm and pride the role small business has played in the creation of jobs and how well we are doing. My question to you, sir, is why do we need to change the way we have been doing business and the way we have been approaching trade in the world if we have been so successful? Why risk the future of Canada?

Mr. Bulloch: I will tell you why. Any businessman today who does not become a change junkie is not going to survive the next five years. The changes that are taking place are revolutionary in their impact. The trade adjustment is nothing. My counterparts in Japan have had an 80 per cent swing in their currency in the last two years. So have most of our competitors in Europe. That alone would have more impact in one year than any trade adjustment would have in 10 years. Then there are the technological changes that are coming that will sweep across the country and the new competitors that are coming at you from all the developing nations. One year you have got Korea, the next year Malaysia and the next year Kuala Lumpur. The developing world is a growing thing. You cannot use the past for the future.

We tell all of our members: "If you do not commit yourselves to becoming a change junkie, you are going to be out of business, because you will have to continually adapt in terms of your output. You are going to have to become more entrepreneurial, more technological and more international or you are gone." Eight to 10 per cent of all businesses in Canada disappear every year. Right now, for every 100 that disappear, 200 are starting, and those are the people who are going to take us into the future.

Mr. Neumann: I think you make my point. In all of the examples you have given, you have referred to more internationalism. The examples you gave were not American; they were world-based. I would agree with you that we have to adjust to change. Canada has been adjusting quite successfully on a world basis and can continue to do so. Why do we need to become parochial and tie ourselves simply in with the American market? Why not do it on a world basis?

Mr. Bulloch: We are not becoming parochial. We are adapting to a bigger market, so we can become increasingly specialized, so we can prepare ourselves for the Mexicos, the Taiwans, the Indias, the Brazils, the Chinas, which are going to be the major powers in the 1990s.

We have not even begun to feel the competition. Look at Korea, for example. Right now, Japan is moving its manufacturing massively into Korea. Its currency is tied to the American currency, roughly. You have not felt the Japanese technology and capital coming at you from all these other countries in the world. It has not come at you yet.

Mr. Neumann: Do you not fear, though, that Canada, as Mitchell Sharp said yesterday, in this partnership will be viewed as the junior partner in a North American continental market rather than, as it presently is, as a major player in the world economy?



Mr. Bulloch: No. That is political fiddle-faddle; it just does not make any sense.

Mr. Neumann: Mr. Sharp has no political axe to grind. He is not involved in politics.

Mr. Bulloch: It just makes absolutely no sense. Small business, medium-sized business and large business are very international in their perspective. They see the trade agreement as enabling them to become more specialized and therefore being more competitive as the world economy becomes more competitive. It is a very positive, forward-looking thing. It is not tying yourself to the Americans at all.

I will tell you right now that in the past we have not been competitive with anywhere but America. We are now in a superb position, with the American dollar being low, to really recapture our lost markets in Asia. The reason we are now so tied to the United States is because the United States currency was so strong and we lost all our markets in Asia and Europe. Now the dollar is low and we are going to get a double bang for our buck; we are going to be more competitive on a North American basis and more competitive in the world.

I am quite confident that as we expand trade with the United States we will expand trade with the world to a greater degree. Our share of trade with the United States, despite the benefits of the agreement, will actually fall relative to the rest of the world. Probably nobody has ever thought of that one.

Miss Swift: It is also interesting how many of our members are very concerned about protectionism around the world, not just in the United States. These are people who obviously are seeking opportunities outside of the United States. We cannot fool ourselves that penetrating those markets is as easy as moving forward in markets we are already in, such as the United States market; but pretending those are just as open as the United States is very erroneous.

Mr. Bulloch: We have another big problem, which is a real challenge for Canadians; that is, we are not as fluent in languages as many of our trading partners. Almost everybody I know around the world has three languages. The future trade for western Canada is going to be China and Japan. Almost every business school in this country should have an option of taking Mandarin and Japanese. Our Japanese partners almost always speak at least three languages.

When we go into these international markets, we have lots of disadvantages. It is a very tough job for Canadians. It is tough for Americans. Americans are not language-sensitive, and they are getting killed around the world because they do not read foreign journals, they do not follow research in other people's languages and are losing out.

We have a big challenge getting into the world. I hate to think of us trying to get a piece of the world market without having the basis of the North American economy. It is just frightening to think of it.

Mr. Neumann: Yesterday we had two associations representing some elements of small business, the Wine Council of Ontario and the Canadian Printing Industries Association, both of whom expressed very serious concerns about the ability to adjust quickly. You mentioned a 10-year period. The Ontario wine council indicated that the tariff adjustment in the first two years is 50 per cent of the differential. The printing companies of Canada



expressed concern about being able to compete on a continental basis because of the economies of scale. It is going to require a massive adjustment and some losses. I do not hear you reflecting those concerns of small businesses.

Miss Swift: I do not think they are related to the bilateral agreement. However, you are well aware that the wine industry problems are a creation of past policies that have been practised by many governments in this country. They are going to have some changes brought about through the GATT or whatever long before they are affected by the bilateral agreement. I think that is not really that relevant in the context of the bilateral agreement.

I guess the whole question that we would raise here, which Mr. Bulloch addressed, is how much is a result of this agreement and how much is going to happen in any case? I do not think we can really fool ourselves that we can follow a path different than the rest of the world if we intend to continue to remain a heavily dependent trading nation.

Mr. Bulloch: I think the point that the charts make, though, and I was just going to refer to them, is that you have people who are going to be affected negatively. We are not trying to downplay it.

We are just saying that before the agreement, based on their perception of what would happen as you removed barriers, you had 15.9 per cent of businesses in Ontario feeling it would have a negative effect. Now that they see the deal, it has dropped in half. It does not mean that we are ignoring this 7.8 per cent of businesses in the province that feel the agreement will have a negative effect. There are winners and losers in every deal, but there are more winners compared to losers in this than almost any other issue we have dealt with.

We deal with tax reform. On sales tax reform, we are lucky to get the winners even equal to the losers; that is how difficult some of these issues are. This happens to be just more political.

Miss Swift: Also, the losers are unfortunately going to be losers no matter what happens to this agreement, I am afraid, and I guess that is the real reality we should be facing.

Mr. Chairman: I presume wine industries answered your questionnaire, and manufacturing companies.

Mr. Bulloch: Yes. If we had a few more months of data and a little more time, we would give you the SIC code breakout like we gave Simon Reisman. We will have that with all the people in the wine industry and the printers and all the rest of it. We can break it out by the standard industrial classification.

Mr. Chairman: We would appreciate it if you can provide that to us when you are finished.

Mr. Bulloch: We will do that.

Mr. Chairman: Meanwhile, we may have reported.

Mr. Bulloch: We will certainly do that.

Miss Swift: Our broad sectoral representation is quite close to the Ontario economy, I did that check, but we do not have the four-digit SIC yet.

Mr. Neumann: I share your enthusiasm for the entrepreneurship and creative spirit of Canadian small business, but I certainly do not share, even in a joking fashion, the idea of your version of Canadian manifest destiny. I do see long-range political dangers for the economy and independence of Canada. I think we have been doing very well with our approach on an international basis and we do not need to link ourselves to the US to succeed. We should have more confidence in our own abilities.

Mr. Chairman: Moving along, Mr. Pelissero.

Mr. Pelissero: It is interesting. You comment that if you had a couple more months, you could provide us with more details. You have had about six weeks to study it. We had less than two weeks less than that from the time we saw the final text of the agreement on December 11 before a free trade arrangement was signed between Canada and the United States. I think as more people--and I am coming back to Brad--become more familiar with their sector, they may ask some questions.

In line with that, would you care to make any comment, in terms of the question that was asked before the final text and after the final text, on the fact that the undecided went up 10 per cent? Do you have any comment on that?

Miss Swift: Yes. Certainly some of it came from the negative to undecided. I think John touched on a couple of the reasons we have seen, one of which was that when we had asked the initial question, there was no notion of there being any phase-in. The presumption was made that it would be one day no free trade, the next day free trade. We believe a fair portion of those negatives went to undecided on the basis of realizing they would have a 10-year phase-in and that indeed many of the other market changes going on would be more significant for their business than any provisions of the actual bilateral agreement.

One of the other reasons I have heard from members is that their business is not directly involved in trade itself but if there are more macroeconomic benefits for the economy, which most studies have confirmed that there are, including one by your Treasury department, then their impact will be--say, for a retail business that has a local business--an indirect, trickle-down type of effect. As a result, that tends to lend less certainty to their own conclusions about the effects of the agreement on them. They need a little bit of time.

In the adjustment question, we split out the undecided purposely into undecided and "need more information," because we have quite a members' services part of our organization and we wanted to try to deal with as many specific concerns and specific questions as we could, and we are in the process of doing that.

Mr. Pelissero: The way I read table 1 and table 2, there was very little shift from the positive, again of three or four per cent, both across Canada and in Ontario, but when you look at the other three categories, in some cases you have had a significant shift from the negative, obviously, and in some cases there is "no impact" down to the undecided, as you say, depending on the type of phase-in and the type of industry they are in.

Mr. Bulloch: I think the example I gave was a very typical one of being a subcontractor to somebody who has to make the adjustment, and your success will depend on how he handles the adjustment, because a lot of small business people are not directly exporters and importers; they are heavily

involved indirectly in exporting and importing as subcontractors and specialized suppliers of services and so on, business services and subcontracting services. If they find that their major customer is saying that it is generally positive, that they see some expansion taking place, then the information they have now they would not have later, so some of the negatives did slip into the undecideds because they are conditional on their customers.

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Mr. Pelissero: By the same token, would some have answered positively because of that scenario, in terms of: "If the person I am supplying feels it is a good thing for my company, it should automatically be a good thing, according to the trickle-down theory. A large company feels it is good and obviously, if it is going to be good for them, it is going to be good for me."

Mr. Bulloch: Yes. There is a lot of that. You mentioned the statistics of exports. That is very misleading. You have to look at small business's direct and indirect impact on trade. Today's small businesses are very specialized and they fill niches. The big firms are massive subcontractors, whereas 25 years ago firms did it all in-house. But the economy has become so specialized, you cannot really put that kind of specialization in-house any more. It is all subcontracted.

A lot of what is called business services used to be called manufacturing. It is due to the specialized nature of subcontracting. They are very much part of the success of the major firms and also dependent on the overall performance of the other subs and the major companies. It would not be unusual to look at a study like this and say that the growth in the positives is because they have got more information on how their customers are going to react to the actual deal and the balance seems to be positive for them.

Mr. Pelissero: Moving to the positives for a second, were the positives positive in the sense that they saw a larger market in the United States or were they positive because they felt they could secure what they had? I am talking about the traders now, not necessarily the secondary industries. Were they happy because they saw a 250-million-person market, as the cabinet subcommittee heard in some cases, or was it more a sigh of relief than encouragement with respect to the free trade agreement, relief about securing the access that we had, or, as you identified, concern about protectionism not only in the United States but right around the world? Define "positive" for me.

Miss Swift: All of the above.

Mr. Bulloch: I would say the biggest one for small business would be being able to move back and forth across the border without having to get special permits and being restricted. The reduction of tariffs and the elimination of the border restrictions on the movement of personnel are probably the two biggest benefits that spill off into small business.

There are areas of agreement that are disappointments. I would hope that over the next five years we might get a better procurement provision that would reduce provincial purchasing barriers and state barriers. Then this would go from a major agreement to an outstanding agreement. That is the problem for small business, the markets in the states that are restricted and the markets across Canada. Certainly in Ontario, I know that you feel very strongly about these interprovincial barriers. That is probably our



disappointment. The public focus on dispute settlement is not a small business issue. They do not get government subsidies and grants and this kind of thing.

Mr. Pelissero: Two quick points: You mentioned the five- to seven-year period. Is there any concern that we are going to allow that length of time to try to define what a subsidy is?

Mr. Bulloch: I am not concerned about that because you do not cut ribbons for small business. It is a nonstory. You do not give these cute, indirect trade subsidies to small business, so they are not vulnerable.

I would hope that we would be able to narrow down what is clearly an indirect trade subsidy so that we would have more certainty, but we will never get rid of those types of measures that protect countries from cheating by other countries. Every country cheats when it comes to trade. They are always looking for loopholes, the same way that Canadians look for loopholes in the tax system. There are always lawyers looking for loopholes in the trade law, trying to find a trade subsidy that does not look like a trade subsidy.

Mr. Pelissero: In your estimation, how did we beat the Americans in this trade agreement?

Mr. Bulloch: I do not think that we beat the Americans. I think it is just business one to one. It is easier to sell into a bigger market than it is to sell into a small market, so we will get more benefits.

I am very close to the negotiators, the people in the Trade Representative's office. I know their strategy. They are very much preoccupied with the GATT. They are very concerned that the present GATT agreement does not cover agriculture and services. As manufacturing gets more global, the GATT becomes more and more inadequate because we are creating more in services than in agriculture.

Their view is that if they could get an agreement with Canada and take that expertise--because we go as partners; we both learned how to negotiate services and agriculture--to the GATT, we could get these items on the GATT agreement. Then if they did not, there would be a threat that they would then seek other bilateral agreements.

We do not have any leverage with GATT. The Americans have the leverage. We have shown that we can make inroads in agriculture and we can make inroads in services. Now let us get these provisions into the GATT. If we get a better deal under GATT than we got in the bilateral trade, that is the purpose of the deal, and we will all benefit. The hammer that they are holding out is that they will seek other bilateral agreements if we do not get a better GATT deal.

Mr. Pelissero: A closing comment: I am interested in what you based the information that you provided to Mr. Reisman during the free trade consultation and/or negotiations process, given that we are going into somewhat of a void in the sense that there were negotiations going on without knowing the final text, and then how your numbers afterwards are able to support the numbers going in at the beginning. I just find that interesting.

Mr. Chairman: That is an editorial comment.

Mr. Bulloch: Originally, I think all we were trying to do was let him have very good information broken out by SIC code. He was very interested in about 27 industrial classifications in specific provinces. He wanted to

find out if that kind of feedback was consistent with the information he was getting from the sectoral advisory groups on international trade, because the SAGITs are dominated by larger firms. He said, "Yes, I have got that position" and "Oh, I want to talk to you some more about that one because that wasn't coming through." We just provided input to assist in the decisions and compromises that had to be made.

Mr. Pollock: Multinationals control whole segments of the economy in the United States and, to a point, here in Ontario. Do you see that as being more of a problem for the small businessman in Canada now?

Mr. Bulloch: No, I do not. The structure of business has become so global and big firms have had to become niche suppliers in the same way that small firms have become niche suppliers in the domestic market. They are supplying niches in the world market. The specialization of large firms has created an explosive demand for differentiated services. The small business sector, in what they call the business services sector, is an exploding phenomenon, and the growth in small specialized manufacturers as sub-suppliers is a growing phenomenon in every country in the western world.

As the world economy becomes more specialized, there is an automatic growth in the need for specialized services and specialized components, and small business is growing dramatically in every country in the world. It is not just a Canadian phenomenon. We happen to be a little bit ahead in terms of our performance in the rest of the world, but the same forces are propelling change everywhere.

Mr. Pollock: That we are a little bit ahead is possibly because of the difference in the money, though. That has been a factor.

Mr. Bulloch: Our relative stability; you are absolutely right. Everybody around the world does not talk about Canada and the trade agreement. It is our stability relative to the US compared to their currency valuation that everybody envies, and our quality of life. It is funny when you get away from Canada. We are talking about dispute settlement mechanisms; they are talking about how nice it would be to have a plant in Toronto.

Mr. Kozyra: My first question is on jobs. When we had the representatives of major corporations, they were generally supportive, but their support and enthusiasm did not translate into that many net job gains. I am wondering how you would interpret your charts and whether the positive attitude--and we know how small business generates new jobs--translates into new jobs.

Mr. Bulloch: The phenomenon of job creation is also the same pattern throughout the world. It is associated with new company formations. Over half of all the jobs being created in Canada are being created by companies that are less than five years old. So look into the future. That has been going on every year for the last six or seven years. Look into the next five years, and you have the most incredible phenomenon.

Half of all the employment that is going to come in this province and in this country in the next five years is going to come from companies that do not even exist right now. This is why the Premier (Mr. Peterson) is putting so much emphasis on entrepreneurship and new business formation. You just have to come to grips with that as a reality. That is also happening in every country in the world.



Major firms are downsizing in many areas in Canada. On balance, they are still creating jobs, but they are not playing the same role in the economy as they did in the post-war period, when big firms created three quarters of all the jobs. Today, small business creates three quarters of the jobs, but those jobs are coming from innovative small firms and new companies that are adjusting to this economy. The big firms still create wealth in terms of exports; they still create wealth in terms of technology transfer and so on, and I do not want to denigrate that. But the role they are playing in terms of employment in developing countries is a relatively minor role everywhere, and the pattern is pretty well identical.

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Our pattern here is that these are the people who are creating the employment, and because the view is optimistic and because you see 7.8 per cent negative, that is the number of people who disappear every year in the business community. In terms of the normal adjustment process, eight per cent every single year in the last 20 years have disappeared. When you say that 7.8 per cent are negative, that is the number who disappear every year, but they are being replaced by 15 per cent. They are being replaced by twice as many companies.

Mr. Kozyra: That leads into my second question. I was interested in your term "change junkie." I am just wondering what your federation is doing to enhance this change and to make change junkies out of the new and older businesses and what government could do over and above what it presently does. You mentioned language sensitivity as one thing we are lacking. Can you just comment on that?

Mr. Bulloch: We are building an extended service capacity in the federation, and these letters are just to demonstrate that. Every one of those have been replied to personally. We have seven full-time people who do nothing but respond on the telephone and by mail, trying to give technical advice to businesses. We have an extended member education service now trying to keep them abreast of all the changes so that they can make better decisions.

The kind of policies that we recommend governments follow are policies that assist: not policies that protect and isolate them from change but policies that facilitate adjustment and change. I think the Ontario government's entrepreneurship centres and their venture financing programs are all focused on the right things. Put your money on the new companies, not on the existing companies. That is where you get the biggest bang for the buck.

With economic policies that encourage adjustments, whether it is training, development of technology or education, I tend to think, generally speaking, that we are moving in the right direction. But it takes a while for the political system to catch up with the reality that this change is so dramatic that you really have to be careful putting your resources on isolating companies from change. It just is a faulty policy. Encourage adjustment.

The deregulation of financial institutions, transportation, the trade initiative, tax reform--these are all destabilizing in a creative sense. All the political costs are up front, but those are all policies that facilitate adjustment.

Mr. Mackenzie: Very briefly, I have two points I want to make, and I guess they relate to just exactly how representative you are of your



organization. For example--it was referred to by Mr. Neumann--we had the Canadian Printing Industries Association in before us yesterday. It claimed--I cannot verify it at the moment--that it was probably about the fourth-largest employer in terms of its total operations. Many small firms, something like 3,800, knew of your organization's position. Many of their people are members of it. While not opposed to a principle of free trade, they certainly were not buying your arguments about this agreement actually being good. It is since they have seen the agreement that their association, at least, was giving us a different story than you are giving us. We have had that happen in some other groups before us. I think of the professional engineers and so on and I am just wondering how much you really do represent the feeling of your members.

Mr. Bulloch: If you look at our membership base, you will find that we probably have more printers than the printers' association, we have more retailers than the Retail Council of Canada and we have twice as many manufacturers as the manufacturers' association. We are the biggest small business organization in the world.

Mr. Mackenzie: Are you saying the printers' association was wrong?

Mr. Bulloch: No, I am not saying they are wrong at all. I am saying that they are probably part of the 7.8 per cent and that they have the right to be represented by people who are trade specific and who provide different types of advice and assistance than broader-based organizations like ours. We work with all the trade associations. When it comes down to associations, the support of the association is about 80 per cent, but there are about 20 per cent who are opposed, and I would expect them to come and present their views to you, just as they present their views to us.

Mr. Mackenzie: On the 20 per cent and 80 per cent, I would like to ask you one other question or make one other observation on exactly the same thing. Last March your organization, under the signature of Jim Bennett, who is the vice-president, or was at the time, wrote me a letter. I will just read you one very short paragraph: "I want to advise you that we are alerting our 263 members who live in your riding that we consider many of your activities in the past session of the Legislature to have been damaging to their businesses." It goes on from there.

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You sent a letter out, sir--at least, it is over your signature--to the 263 businesses, and I will read only one paragraph of it:

"In the current legislative session, your MPP, Bob Mackenzie, has introduced one proposed law and voted for another one, both of which would damage small firms. He also voted against allowing beer and wine sales in independent retail stores. In all three cases, we have attached the recorded votes."

You go on to deal with safety and health legislation. The letter actually gets worse from there.

We took the trouble to go not to even a majority of your businesses but probably to about 75 or 80 of them in my riding. Do you know that, with five or six exceptions, they had not even read this rather nasty letter that you sent out and that when we went over it with them, they were a little bit surprised when we talked to them--mostly myself--face to face?

I would say that you certainly were not very representative of the small businesses in my particular riding, and if I can add one other small point--and I do not make a point of it, boasting of it; I have not in this committee--we went from 43 to 57 per cent of the vote in that riding.

I am just wondering how representative you were of your small businesses in this particular riding after that kind of campaign.

Mr. Bulloch: I think if you want to challenge whether we best represent small business or you best represent small business, we will have to do that in a different forum. I understand we are here to talk about trade.

If you want to represent the 7.8 per cent that is negative, that is fine. We happen to represent all the firms, and we never will reflect, in writing or in any public position, any position for which we do not have the analysis and the breakout. Our research data that we develop are available to any committee research department. All of our research is available. If you want to send a research director from your caucus down to our research department and compare numbers, we do it openly. We do not play party games. We have had your federal counterparts in our office. We have had the research people in our office. We compare our data with their data and deal with that.

Mr. Mackenzie: On the question that was asked earlier, how closely do your people take a look at it, I think most of your people never read it.

Mr. Bulloch: Listen, how do you explain the fact that these are personal interviews? There are many different ways of communicating. The best way is personally, asking the question personally. Certainly if you send a survey out to your members, how many members read your householder? One per cent, two per cent? The nature of direct mail--

Mr. Mackenzie: The last response was about 3,000 on 28,000, so it is probably about--

Mr. Bulloch: That is much lower than our response. Our response on 60,000 mailed out is about 25,000 people who respond, and many people travel, are busy and do not read it. So to supplement that, we go and see them personally and we call them personally. We do not rely strictly on mail research. We complement mail research with person-to-person calls.

Mr. Mackenzie: How many of the 263 in this riding had you gone to see?

Mr. Bulloch: We have seen every one of them, and we have also just visited personally 127 people in your riding on the trade question.

Mr. Mackenzie: Why had so many of them not even seen your letter or not even read it?

Mr. Bulloch: I would say that of everything you mail out, probably only about one third of them see it.

Mr. Chairman: Maybe they are good businessmen and the customer is always right.

Mr. Bulloch: Maybe they are too busy making a living to worry about what you are saying, Mr. Mackenzie.

Mr. Mackenzie: That is about what you are saying too, because we have heard a lot of bullroar here today, Mr. Bulloch.

Mr. Chairman: At any rate, it has been a very spirited session and we have profited from it very much. We appreciate your coming here, we appreciate your help and we look forward to an ongoing liaison and the final results of your survey. Thank you very much for coming to us today.

Now, at the risk of culture-shocking the committee, we move from small business to big labour, Bob White, the president of the Canadian Auto Workers, and Sam Gindin, the assistant to the president.

Mr. White, welcome to our committee. We have let the last delegation run a little overtime because it was very invigorating. I know you are going to be very invigorating too, and we do not mind moving into our lunch hour a little bit if necessary.

CANADIAN AUTO WORKERS

Mr. White: We have a presentation. I would like to just read it briefly. Has everybody got copies of it already?

Mr. Chairman: No, we do not.

Mr. White: Sorry.

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Mr. Chairman: The clerk will distribute them right now. We do not have quite enough copies, so we are going to get them Xeroxed.

Mr. Gindin: We have some more here.

Mr. White: We all have access to one.

Mr. Chairman: If I recall correctly, this is your third appearance before this committee. Now, of course, the agreement is signed and sealed.

Mr. White: Well, it is signed, it is initialled.

Mr. Chairman: We did not sign, in any event.

Perhaps you can lead us through your submission and then entertain some questions.

CANADIAN AUTO WORKERS

Mr. White: OK, Mr. Chairman. Thank you for the opportunity of once again appearing before the committee. I think you are correct; this is our third appearance. We will go through our presentation and then we will answer some questions.

Since our overall position on the bilateral free trade agreement has already been made to this government and is well known, we would like to limit our comments this morning to updating some of our points and responding to the federal government's attempts to sell the agreement with the taxpayers' money.

The federal Conservatives' primary goal had been clearly stated as



achieving secure access to the American market so that Canadians could, if they met the challenge of competitiveness, make further inroads into the United States market.

Let us look at the steel industry, where we are more competitive and have been restraining exports to the United States. Will we now be free to expand according to the free market? Clayton Yeutter, the United States trade representative, answered this bluntly and clearly when he was recently questioned. According to the authoritative publication, Inside US Trade, "Yeutter assured members of Congress that the FTA (free trade agreement) would not impair the US right to curb imports of Canadian steel."

More generally, Deputy US Trade Representative Alan Holmer told American lawmakers, "Domestic industries should file dumping or countervailing duties if they face 'unfair' competition. Nothing in the pact has substantially changed US trade remedy laws, Holmer reminded [them]." We make a reference to it and we say, "How much clearer can the Americans be?"

We are meanwhile still waiting to see the outcome of the US omnibus trade bill. We are waiting because, in spite of what we have given up, in spite of the warnings that this bill was so serious that only a bilateral agreement with the United States could save us, the free trade agreement did not confirm that Canada would be excluded from this bill.

It is worth remembering that the target of this bill was never really Canada but countries that accepted only limited levels of American exports, countries like Japan, West Germany and South Korea. We now have a question: If this bill was never intended to go after Canada, and if both our Prime Minister and the American President are so fond of telling us about the special relationship between our two countries, why could these two leaders not have negotiated a simple exclusion for Canada and why did we need a free trade agreement that threatens our sovereignty and still does not guarantee us the exemptions?

The Prime Minister told us there was no link between the demands of the American pharmaceutical companies and the free trade agreement. We now have the free trade agreement, the pharmaceutical companies have their demands and Canadian drug prices are going up. We were told that culture was not on the table and that a Canadian film distribution policy was imminent. The Americans still have the right to retaliate if Canadian cultural policies affect their commercial interests, and the Canadian film distribution policy has been put off to some indefinite future.

We were told not to worry about our social programs and social standards, but as a prominent labour arbitrator recently told a management conference on labour law: "pressure to improve the competitive position of Canadian companies operating under a free trade pact could even influence the Ontario government's approach to pension indexing...[it] could lead to a curb on other innovations in labour-related legislation that might raise costs."

We were told that our regional programs and subsidies would remain secure, and the government is now proudly pointing to the fact that they were not on the table. It is true that they are not specifically addressed, but neither are they secure. This is not just because the future implications of the free trade agreement will reinforce those already arguing that the Canadian programs should be limited by what exists in the United States but also because the government postponed dealing with the issue until later.

We should understand what this narrow political decision means. First, it means that we did not in fact tie down our rights in this area. To do this would have meant an explicit statement in the agreement supporting our autonomy in this sphere, and we did not get that.

Second, it means that we are now entering into a second phase of negotiations with an even weaker bargaining position than we had before, because all our bargaining chips have already been given up and because once we have restructured our economy according to the new state of affairs, we will be more dependent on, and vulnerable to, US actions than we ever were.

Some Americans are screaming loudly about the things that they are not satisfied with, and to people like Pat Carney this is evidence of the great deal that Canada got. These complaints by certain groups in the United States are indeed significant, but we should be clear about what they actually mean.

On the one hand, they simply reflect the fact that, having got so much from Canada before the negotiations even began and having seen how much Canada was in fact prepared to give up beyond tariffs, any American vested group that does not have everything it would like has to be overly timid not to ask for more. On the other hand, I think there is a message here about what the Americans will be asking for and expecting to get once we enter into the second, and equally dangerous, round of negotiations with the United States.

We were told that the auto pact was not on the table and, in the confused arguments used by the government as it tried to get around the obvious threat to the auto pact, that the pact was not really relevant anyway. Then they told us that it was put on the table only because the Americans were, for some strange reason, ready to offer us an improvement--auto pact plus.

The only improvement was for the American multinationals who saw the penalty on meeting Canadian safeguards weakened. In addition to the erosion of the safeguards we had, our ability to have an auto policy in the future is essentially destroyed in this agreement. Let me elaborate briefly on these points.

The penalty under the auto pact was severe in that a tariff for noncompliance was applied to all imports from both the US and overseas. Under the free trade agreement, the United States part of the penalty, which is about 90 per cent of the penalty, will be gone, leaving only the penalty on overseas imports as an incentive to meet the auto pact conditions.

Consider, as an example, the case of Chrysler. Chrysler is currently one of the main importers of overseas products, importing engines and transmissions from Japan and France duty-free under the auto pact. It would therefore seem to have the most incentive to meet the safeguards. But suppose it considered closing the Windsor minivan plant. In the past, this would have meant duties on cars and parts coming in from the United States. But now the only consideration for Chrysler would be the threat of duties on the imported engines and transmissions from overseas--imports which Chrysler would not need if it closed its Canadian facility. Its closure would simply mean that minivans could come into Canada duty-free from the United States. This is what has been called "auto pact plus."

Furthermore, even though the industry is approaching a situation in which almost half the market is going to players outside the auto pact, the key question is how to bring these new players under an auto pact type of



arrangement. The agreement explicitly states that any such future arrangements cannot be entered into by Canada. How is this affront of our ability to have an auto policy in the future defined as "auto pact plus?"

Finally, we are not impressed with the 50 per cent North American rule. It will likely have little impact, political pressure--which means US pressure--and exchange rates being much more important. The Big Three argue that it offers them some protection, that it will bring some of the overseas producers to North America so that competition will take place on a more level playing field. From the perspective of the Big Three, however, they have no reason to worry if all the jobs go the United States. They have no particular interest in Canada getting its fair share of such jobs.

This concern is not just a matter of speculation about what might happen. If you look at the parts industry and the investments already in place or announced by the overseas producers, they are overwhelmingly in the United States. A North American rule that replaces a Canadian safeguard may be auto pact plus for Simon Reisman and the Big Three, but we believe it represents a loss for Canadians.

Let me now turn to the promises in the pamphlets the government is now distributing across the country. They tell Canadians that with this agreement a typical family can expect an increase of \$1,800 in its standard of living 10 years from now. They do not tell Canadians that this model is based on the assumption of "full utilization of resources;" that is, full employment. The increased standard of living in this model comes from industrial restructuring and the movement of workers from weaker sectors to stronger sectors.

Canadian workers have experienced restructuring in the past. For working people, it has all too often been a negative rather than positive experience. A government study of the impact of restructuring on auto workers who permanently lost their jobs in the early 1980s hardly supports the government's case. On average, these workers went 27 weeks before getting new employment and their new jobs paid 34 per cent less than their old jobs. Such statistics are not unique to auto workers.

The government tells us that this agreement will create 120,000 new jobs over the next five years. It does not put this in perspective by informing its readers that just in the last three months of 1987 our economy produced more than this number of jobs--159,000.

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Nor does it mention other alternatives. For example, the Federation of Canadian Municipalities, representing mayors from across the country, presented a study which showed that 285,000 jobs--well over double those promised under this agreement--could be created with federal government help in areas that were simply waiting for some go-ahead, improvements in our roads, bridges, sewage disposal, pollution abatement, water purification, hospitals and school buildings. These are not jobs that are speculative, jobs that pop out of an abstract model, but concrete jobs related to society's infrastructure and concrete needs.

The government also did not tell Canadians that most of its projected 120,000 jobs are simply the result of consumers having more money in their pockets as a result of the tariff cut. The job results are generated by these new expenditures. Why not achieve the same result by simply cutting income or sales taxes? If jobs are the goal, the logical place to cut taxes would hardly seem to be on goods produced by workers in other countries.



Then there are the pamphlets which address the consumers. These pamphlets tell Canadians about the savings from lower tariffs and are, to be generous, very misleading.

They do not tell Canadians that many of the expected savings will not really be there because some of the most attractive goods, from a consumer point of view, are not North American goods at all, but overseas goods--appliances from Japan or Taiwan, suits from Hong Kong, etc.--so they will still have the same tariff. Nor do they point out that on some goods, like liquor and cars, the main difference between prices here and in the United States are not tariffs, but taxes that will still be applied when these goods are brought back across the border. Because of this, cars, as the government well knows, will not be cheaper under free trade and customs officials will still be there checking the nationality of goods and whether Canadian taxes are due.

In their desperation to provide a dramatic example of the alleged advantages of free trade, the government has come up with the argument that it will allow people to save up to \$8,000 on a new home when the agreement is fully phased in in 1998. The actual number in the government study was \$5,000 to about \$7,800, which they rounded off at \$8,000, but the assumptions made to come up with even these numbers are interesting.

It is assumed you build a new home from scratch--\$177,000 plus land costs--rather than buying an existing home. So, there will be savings on unspecified imports of building materials. Then it is assumed that you furnish the house with everything from chairs and tables to manual power tools, towels and bedsheets--six sets to be definitive--and the largest item under furnishings is \$7,000 for new clothes to establish this new household.

There are assumptions about the tariff savings being passed on to the consumer. It is assumed that the house is paid for up front rather than with a mortgage, and all the furnishings are bought immediately rather than over a period of time.

Finally, when considering the impact on consumer prices, there is the reality that some prices may actually rise as a result of this agreement: drug prices, energy prices, if there is an energy crisis, and sales tax to make up for lost revenues from the lower tariff as this particular government tries to restrain the deficit.

I would add that Canadians are not just consumers, but workers, citizens and members of communities. So any discussion about the impact of possible lower consumer prices must address the questions of purchasing power and social good.

Are we really better off if we save some money on the stove from the US but our husband or wife is laid off? Are we really better off if we are forced to move to another lower-paying job and lose our seniority? Are we, as working people, better off if our collective bargaining strength is reduced by this agreement?

Are we better off if the agreement leads to less progressive taxation, fewer expenditures on preventing our cities from becoming run down, reduced social services, greater barriers to moving ahead on equal pay and affirmative action or child care?

Perhaps the greatest nonsense in the government's argument in favour of

free trade is the promise that this agreement will let the regions outside of central Canada free trade themselves to prosperity, matching the success of Ontario, particularly Ontario's success in the auto industry.

The outlying regions of Canada have not developed a diversified manufacturing base in the past because the banks and the large manufacturers did not consider it profitable for them to do so. With free trade, there is more pressure and more freedom for these corporations to locate on the basis of profit. Where is the rational argument that they would now behave differently?

How do Peter Loughheed or Grant Devine explain that their neighbours to the south, in Montana or Idaho, do not have a diversified manufacturing base but already have freer and more secure access to the US market than they are hoping for? Ask corporate executives if they will suddenly invest in regions they spurned before and they will quickly answer: "Of course not. I'll go where the market is, where my suppliers are and where my profit prospects are highest."

Or consider the auto industry example which free traders love to parade out to make their case. "Look at what the auto pact did for Oshawa," they brag. "It can do the same in Saskatchewan or British Columbia."

First, the auto pact was not an example of free trade, but of managed trade. It did what free trade tries to disallow--it required commitments to jobs and investment in Canada. In agricultural implements, as a counter example, we have had free trade since 1944 with no such job requirements and we have had a deficit with the United States in every single year since.

Second, the auto pact did not tell companies in which part of Canada to invest. They chose to ignore locations outside of central Canada because of their profitability criteria, and will continue to do this in both auto and other sectors.

Third, even the free trade supporters would admit that, however competitive we may be today, there would be no auto industry in Canada if its past development were left to free trade. Protection and job guarantees were absolutely fundamental to establishing this industry. To develop new industries outside of central Canada, similar kinds of protection would be essential.

Economic diversification and development in British Columbia, the Prairies, the Maritimes or northern Ontario is not going to happen by just catering to the market--that will only reinforce the status quo--but by defying the market, by massive interference in the logic of the market and its narrow criteria.

More of free trade will not only mean more of the same but will make things worse. Both the agreement and its leave-it-to-private-enterprise ideology will, in spite of the Prime Minister's claims, erect new barriers to regional diversification and development.

Let me now summarize our arguments. This agreement is about more than the removal of some tariffs. It is about the control and use of our natural wealth, the control over the investment that shapes our industrial structure, and the ability to use popular pressure to influence the direction of the economy and how its benefits are distributed. The free trade debate is, therefore, not just about how we see Canada today, but about differing visions of what we hope to do about Canada's future.

The Prime Minister speaks of confidence in the free trade agreement and Canada's future, but does not have the confidence in the people to decide the issue. The Prime Minister tries to assure us that our sovereignty is not in danger, but he himself is denying us a chance to exercise one of our most sovereign rights--democratically determining the crucial issues of our times.

We must defeat the free trade deal and defeat the attempt both to cement our economic integration into the United States and to limit our future alternatives. We must begin to spend our energies on how, not if, we can develop an independent Canada that is compassionate, caring, dynamic, prosperous, and proud of the role we play in the world.

What role can Ontario play?

This government was given a strong mandate to oppose and defeat this agreement, yet in spite of some good statements, not enough is being done.

I agree there is a limit to constitutional challenges since we should be cautious about further erosions of federal power and since the issue is a political not a constitutional one. I also understand the limits on the national role an Ontario Premier can play, although there is room to explain how Ontario, in fact, developed the economic base we have and why free trade will not do the same for the regions.

But there is particular room for doing things within Ontario, including matching some of the federal government's propaganda with counter pamphlets. Why is Ontario not distributing, on a mass basis, pamphlets and leaflets exposing the federal government's arguments? Why is Ontario not giving wider distribution to some of its own studies? Why has Ontario not set up a hotline where people seeking information or counter arguments can call?

Why has the Premier not sent a personal letter to every household in this province warning them about his serious concerns? And why is the Premier of this province not expressing his outrage, in every forum possible, with the affront to democracy of the Prime Minister moving without a mandate to put this agreement in place, an agreement which the Prime Minister has himself said is not for this year, but for the "next decade and the next century"?

I hope that this committee will perform the function of being more than a vehicle for letting Ontarians let off their steam, and will put the information it gathers to use in an energetic and forceful campaign to prevent this extremely dangerous agreement from coming into place.

Mr. Chairman, as you can see, we did not attempt to rehash all of our broad arguments about the philosophy of what this does to Canada. We have never, from day one, attempted to narrow this down to the auto industry or to Ontario. We see it as much broader than that. But we are here now before an Ontario committee and we thought it would be important to lay out some of the arguments against what we think is the federal government's position here, and also try to push for Ontario to start doing more education about the other side of the issue in this province, because in the shopping malls, the grocery stores and all over the place, in bus stations, railway stations and airports, there are massive amounts of material put out by the federal government--I understand it delivered some boxes here--which makes the argument in its favour.

We are into a national debate in this country and I think Ontario should not be hesitant about playing an important role in that.



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I have been all across the country and, sure, there is an inclination in some parts of western Canada to be popular by bashing Ontario, but that should not make us crawl into a shell here and be the least bit hesitant about talking to Ontario residents about this issue. We think the Premier and the government can do more in terms of publicizing some documents here that go out to the people to put the case.

It is not a case just about Ontario. It is a case, as I think the Premier has stated several times, about Canada. So we have attempted in our presentation this morning to deal with some of the issues that the federal government is raising and narrow them down, rather than just go through and rehash some of the things we have said to this committee in past presentations.

Mr. Chairman: I think that is fair enough and I think it is fair that you have brought us up to date with some of the rebuttals to the federal arguments. We do appreciate the work your union has done in education at this point and the advertising dollars you have spent. It has been important.

Mr. J. B. Nixon: Mr. White, thank you for appearing today. I would say to you that one of the measures that the Ontario government is taking in expressing its position and in allowing others to express their positions on the free trade agreement is to hold these public committee hearings.

I just have a couple of specific questions about your presentation. On page 2 you refer to an unnamed labour arbitrator speaking about possible pressure on the Ontario government to change its approach to pension indexing. My question to you is, as I was not there and did not hear this gentleman speak, is the allegation that our competitive position will be damaged by pension indexation and therefore the government will have to reconsider its position, or that pension indexation will be conceived in some way as some sort of trade barrier?

Mr. White: No, I think the allegation is the first. I remember immediately when the Friedland report came down on the pension indexing formula there were spokespersons at that time from the Canadian Manufacturers' Association, Ontario Division, who said they have to be very careful on pension indexing, especially now under free trade, because pension indexing is not on the political agenda in the United States.

I remember we were faced with the pension indexing issue with the Chrysler corporation in this city last September, and one of the things we had to overcome was their people who were here from Detroit who were saying to us that pension indexing is not on any legislative agenda in the United States. It is not on the collective bargaining agenda in the United States. We had to have a tussle about the fact that it is on the political agenda in Canada. In Ontario, it is certainly on the collective bargaining agenda.

Now you are starting to get forums being held which are comparing labour relations in the United States and the competitive arguments, the pension indexing, health care, drug plans, a whole range of issues, and people saying there is going to be enormous pressure on us now to hold the line on those because we are moving into a different environment, we are moving into a free trade environment with the United States.

We have seen some itineraries of private seminars that have been held which now are discussing how to harmonize labour relations with the United

States. That is what we are talking about. We are not talking about its being an unfair subsidy.

Mr. J. B. Nixon: OK. On page 6, at the top, you comment on the assumptions built into the federal government's model of this prospective Utopia which results from the trade agreement. You mention industrial restructuring and movement of workers. I would just like to hear your comments on what I think is a very important issue, the need for skills training and retraining that will be required, services which I think will have to be provided by government, particularly provincial government, given that the federal government is no longer interested in that.

Mr. White: I will let Sam Gindin address that some more, but there certainly has to be those provided. I mean, there is always change taking place in our economy. This is what really gets me upset. People try to put us, because we are opposed to the deal, as somehow being perpetrators of the status quo. I have been accused of a lot of things but not usually being the status quo.

So change does take place. But what bothers me is, we use this term "restructuring" as if somehow it is happening inside a room like this and nobody is really affected by it; you just slide over.

Let me give you an example. Mr. Neumann knows it best. We had an announcement of Massey Combines Corp. going into receivership on Friday. As of yesterday, there were close to 4,000 people, mostly retirees, who had their health care benefits cut off. People went to the drug store in Brantford yesterday with a card that normally would be able to get drugs for themselves or their wives--retirees--and it is no longer accepted. I spoke to one man there on Saturday who had a \$500 drug payment he just received for drugs. So that is what people call restructuring.

We are going to have some of this always, but I think much more of it under free trade. How do you move these people? Where do they go? How do you retrain them? What happens to them in the meantime? Can you retrain people who come out of that environment now at 50 or 55 years of age? Are we going to move in and put a program in there that says to people: "You cannot be retrained. We have to do something else but we have to reimburse you. We have to make sure your health care is covered during this period of time"?

There has to be a lot of discussion about manpower programs and special adjustment programs that will take place. We should have that anyway, but you are going to need a lot more of that under this kind of arrangement. What bothers me is they say there are not going to be large numbers of jobs lost; there is going to be restructuring. But restructuring means you lose your job first before you go somewhere else, and usually in that kind of a situation, if people move to any employment, they move to employment that is at a much lower rate than what they came out of, with a much different benefit structure. Mr. Gindin might want to elaborate on this because we have been doing some studying on restructuring, on manpower programs, etc.

Mr. Gindin: As Mr. White said, a lot of it is also that jobs are in different communities and how do you actually make sure that the jobs are in the same or nearby communities? I think one of the questions here is just the credibility of the government on this question of adjustment assistance. As Mr. White pointed out, if you look as the auto industry as an example, everybody has been predicting that there is going to be major restructuring because of tech change, and particularly because of excess capacity.



We presented a major joint study with the industry on manpower changes predicted in the auto industry and nothing has happened. Nothing has been put in place to do that. So there is really a question of whether the government is really committed to those kinds of issues and investing the kind of funds that would be necessary to support people.

Mr. J. B. Nixon: One final question. It is just a question for clarification more than anything else, at the bottom of page 6. I am not sure if you are suggesting something you do not mean to suggest, or maybe you can clarify it for me. You talk about the federal government's projection of 120,000 jobs being created as a result of new expenditures. I think what you are suggesting is that is just a bunch of malarkey. In fact, the jobs going to be created are the jobs in the United States, which is exporting the consumer products.

Mr. White: No. What we are saying is, assuming you accept that is a correct number, if you go back on the history--I remember the history--last summer it was 500,000 jobs, and that became about 240,000 just before Christmas, and now it is down to the 120,000 number. What we are saying is, for the purpose of this discussion, let us assume those numbers are correct.

Mr. J. B. Nixon: OK.

Mr. White: OK. How do you create those? You create those because of tariff reductions. That puts more money in consumers' pockets. We say if that is the case, there is a different way to do that. That is the way to create job creation in this country. You can do it by tax cuts as well, if that is the reason for the creation of the jobs. We are not arguing whether it is a correct figure. We are assuming that you take their number and say if that is correct, how do you get there.

Mr. Pelissero: That is over 10 years.

Mr. White: No, five years.

Mr. Chairman: Mr. McLellan and myself were at that American Bar Association meeting that Mr. Holmer spoke at. Carl Beigie, then of Dominion Securities, was there, billed as one of Canada's foremost economists. He said that the 120,000 jobs were within the realm of statistical error; i.e., it might be zero or it might be 240,000. We do not know.

Mr. White: Was he with Dominion then?

Mr. Chairman: He was still with them then.

Mr. White: It is down to 120,000, down to 119,000, down to 99,000--

Interjection: We lost it.

Mr. Mackenzie: Just two points, Mr. White. First, on your brief, and unless people are prepared to dispute the factuality of the comments, it is a particularly powerful brief and it reminds me also of the one we got earlier from the Steelworkers, although you have updated yours quite a bit. Both of them were effective in two ways: in outlining some of the falsehoods and in making some specific suggestions that Ontario could follow, the things we could do to respond to the advertising campaign that is going on federally and a number of things in the other brief that, in effect, would strengthen Ontario's jurisdiction.



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I guess what I want to know is, how important do you think it is that this government, particularly given its election mandate, does engage now, and much more forcefully than we have, in actions that will point out to the people of Ontario what this deal means?

Second, and part of the same question, do you see it as being an obligation, moral or any way you want to put it, that we do have a federal election before we are locked into such an agreement in this country?

Mr. White: Let me deal with the first question. As a Canadian, I get very concerned about provinces that would legislate little pieces against a national program. You can do it. It is within your right, I guess, to do certain things.

What we are trying to say is that we really are now into a political debate about where this goes and that the federal government ultimately, if it has the mandate, will proceed with this.

I think Ontario can play a much greater role in this national debate. I understand that in some parts of Canada, because Ontario's economy is booming, people will sort of point the finger and say, "You're doing very well, why can't we share that?" I think we have to make the argument you do not share it under this kind of an arrangement.

I think Ontario can play a very key role, but first of all, the way I see it, it is like with our membership. The first place we went to talk about this program was not here. We went back to our membership to talk about it and explain in great detail what we saw it to be and we saw the inherent dangers in it. Then we have been all across the country and spoken in every province of the country about this. So I think the role of the Ontario government is very, very important, because ultimately the people of Canada are going to have a right to decide.

The question is, are we going to have the right to decide this? I think this is part of a much wider mandate. This is a first step to what will be a much wider framework, because you have regional subsidies, and agricultural policies are going to be discussed in the next five to seven years, so it is the first step to a much wider framework.

I think the federal government has an obligation to go to the people before this goes into effect. Under the parliamentary system that you know very well, the government has the majority. They can determine within a certain timetable when the election should be, but I think when both the pro-free-traders and those of us who are on the other side of the question all agree on one thing, that this is going to mean a substantive change to Canada, the argument is whether it is a good change or a bad change. It is going to mean a substantive change, the greatest change we have gone through in many, many years, and as the Prime Minister says, it is not about tomorrow, it is about the next 10 years or next century.

And it is not a single issue. I do not agree with single-issue politics where some people try to target you in your riding on some single issue. This is about the structure of Canada. It is about whether or not we are going to continue this history of the east-west relationship or whether we are going to fall towards a north-south pull. It is about social programs, it is about culture, it is about jobs.

Surely on all of those issues the Canadian people should have the right to say to the Prime Minister and his government, "Yes, you have a mandate to continue down this road" or "No, you don't." And that should come sooner rather than later.

If you go through the history of this, first of all, those of us who were opposed to this were told: "You can't be opposed to it, you don't know what we're going to get. How can you be opposed to entering into negotiations?" We had some sense, when we saw what happened to the Foreign Investment Review Agency, the international energy program and drug patents, but they said, "No, you can't be opposed to it."

Then they got the agreement, and it was not initialled at that point, and they said, "How can you be opposed to it, you have not seen the final text?" Then we moved from that period of time until it was initialled. Now it is: "How can you be opposed to it? You're opposed to it, now the Americans are going to make you pay a price. We'll get an even worse argument after next January."

I think the timetable is to get this out across the country as soon as we can in 1988. Some people will argue that this is too complex an issue for people to understand. I think it is not, and I think the way to take the complexities out is to have some national debates with the political leaders on television, to have some debates in the ridings and the town halls across the country and let the people hear this.

Most places I have been, I have found there is a great deal of interest in this. There are a lot of people attending forums, both pro and con, so there is a lot of education going on. I think ultimately in our democracy the people have the right to make that decision. It should be before the thing is put into effect.

If we are in collective bargaining and we reach an agreement with a corporation, before that agreement is put into effect we go back to our constituents, the rank-and-file membership, and they make a determination as to whether or not we have the right to finalize that document. I think with such a fundamental change in our society, the Prime Minister has an obligation to do that, and I think the Premier of Ontario can play an important role by talking about the importance of taking this out to the people.

Mr. Mackenzie: Finally, and you referred to it briefly already, is the argument we have had from time to time with some of the groups appearing before us as to how accurately they do reflect the feeling of their members. I was going to ask you to tell us the extent to which you have gone to your members, and to which the labour movement generally is going to its members, to make sure they do understand this issue.

Mr. White: If I can, let me just go back a little bit. In 1985, at the national level of the labour movement in Canada we had the executive of the Canadian Labour Congress, which represents people from all across the country, including the presidents of the various federations of labour, and we debated this issue and took a position in opposition. Then an enormous amount of education went out from there. It has been going on for the last two and a half years.

With our own membership, we have spent a lot of time writing about this, putting it in local publications, asking people for their points of view. You will see a lot of our local newspapers ask people, "How do you feel about this



deal?" In the last three weeks, we have taken over 3,000 elected leaders out of the plants and offices for a day during which we went through this thing in detail, not a surface discussion about it. So we have tried to get them to understand it. If somebody asks me, do all of our members agree with my point of view on this, the answer to that is probably no. But I think if you took a poll among our members across Canada, you would find a large majority of them believe that the position we are taking is a correct position. I have not received any letters from any of our members who have disagreed with us, which I do sometimes on some other controversial public positions.

Mr. Morin-Strom: Thank you very much, Mr. White, for the presentation you have made to us today. The chairman made the point earlier that this is the third time you have appeared before the committee, but I guess technically we have a clarification: this is the first time since the past election.

Mr. White: Yes.

Mr. Morin-Strom: In fact, with the restructuring of the new committee membership, only those who were on the committee previously--these presentations and this committee as a whole have been looking at this issue for about two and a half years. I think it has been a year anyway since the last visit.

Mr. White: Yes.

Mr. Chairman: That is correct, Mr. Morin-Strom, and in fact this will be the first time that Mr. White, I think, has appeared before the standing committee.

Mr. Morin-Strom: In the previous presentations, you have looked more at the philosophical reasons for why we should not even be pursuing an agreement under the agenda the federal government was pursuing. Today, you have addressed more seriously or more specifically the potential effects on the auto industry, which for most of the last two and a half years we have presumed--or at least the federal government has led us to presume--was not going to be a major part of this agreement, that in fact we were going to be excluded. Almost everyone in the political sphere had stated that the auto industry is one that should be exempted from an agreement like this.

We appreciate the input you have given us on the auto industry today. I wonder if you could expand a bit more, though, today on how you see this agreement in the larger realm of its effect on where we go from here as a nation. In particular, do you see this as basically a trade agreement or do you contend, as many others have, that this is far more an ideological agreement and that its impact is going to be at least as much on the ability of future governments to control Canadian destiny and whether we are going to have the rights to manage our economy, manage our social programs, as opposed to imposing a free enterprise, much more restricted, less-government-interference notion of what kind of political system we should have, as it is on trade?

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Mr. White: As I said, we have tried today to deal with some of the specifics of the agreement, but most of my discussions across the country in the last couple of years have been in a much wider framework, a much more philosophical discussion about Canada's history and about where we are at this point in our history, about what kind of a nation we have.



I have said, when you look at Canada and compare it to most nations around the world, I think it is fair to say that we have a lot of problems, but we have developed a reasonably caring society. We did that with a mixture of government intervention when we thought it was necessary and private development when it was part and parcel of that. You can look at whatever standard you want and compare us with the United States. It starts off with the basic fundamental right of people to have have adequate health care based on need rather than financial standing and you can carry it all the way through.

I think this shifts us to a much different environment. I think this shifts us to much more of what I call a survival-of-the-fittest mentality. It starts to say that the only way that you can survive in this society is to be competitive at any cost. If things like pension indexing or social programs become cumbersome, then we have to talk about how we manage that, how we retain or how we stop our progress in that area.

Take energy, for example. When was the last time that we denied the Americans access to our energy? What this agreement really does is to protect the energy industry from Canadians. The corporations are really saying, what this does is, for forever and a day, stop the ability of the Canadian government to intervene significantly in the energy sector of our economy. Surely that says something about sovereignty. I mean political sovereignty is not just about electing people to office, as all of you in this room know. Political sovereignty is about the government's ability to manage the affairs of a province or a country.

There is a much wider situation here than just a reduction of tariffs. I mean you start off with 80 per cent of products flowing back and forth across the border without tariffs. You start off with a great deal of that flow between multinational corporations, but you are moving our society much more to a survival-of-the-fittest mentality and away from the fact that we have the necessity of government intervention. You have regional subsidies. You have farm marketing boards. You have a whole range of other issues here that are much different than it has been in the United States.

Those are philosophical differences, I think. I could spend a lot of time detailing those, but it is moving us to a much different framework than what we have been used to in Canada.

If you look at it, it is not a question of this or the status quo. I mean Canada has never been a status quo nation. I came here as a young boy and it has evolved and changed and become more dynamic over those years. We did not have to give up our political sovereignty, the right to determine our energy policies to get there. We had ups and downs, but we will always have ups and downs. We have trade problems and we will always have trade problems, but this is a much wider framework.

I think this is really an agenda of a giant business community that wants to shift the emphasis in our society, so that competitiveness will become the only yardstick that we use. If that means throwing people out of work, if that means more corporate control, if that means corporate takeovers to make the industries more competitive, if that means closing little breweries ultimately in small towns in northern Ontario or whatever, you have to do that because you are then competing head on with a much larger giant to the south of us. I think there is a much wider agenda here than just the matter of reduction of tariffs.

Mr. Morin-Strom: In terms of where we go from here, you have mentioned some specific suggestions for Ontario. Of much more critical concern is the election coming up and what a future government, which is committed to stopping this agreement, might do and what the consequences might be in the United States. I wonder if you would suggest to us where you think we should be going in terms of those of us who are opposed to the agreement and the need for the election this year and what the consequences might be if the agreement is stopped this year versus after implementation. Do you have any particular recommendations on the process for getting out of the predicament we have been put into by the Prime Minister?

Mr. White: Again, I want to go back. If you check the record, you will find that people were arguing that you can start the process and then turn back; it is more difficult to do, but surely as a sovereign nation we have the right. If the people of Canada, in an election, say to this government, "You should not proceed down this road," then the country, as a sovereign nation, has the right to put a hold on that and say, "Let us go back to discussions about our problems with trade and find a different way to do this."

You can talk about a disputes mechanism and things like that, but you certainly have to have the right, otherwise the election is a façade if it means we have the election and somehow we cannot turn back to where we were. I think you can turn back to where you were.

The thing that bothered me through all these discussions is that I did not think there was anybody on the Canadian government side who was talking about the importance of Canada to the United States. We were really getting the American argument from two sides of the table. The Americans were arguing that they had to have this deal or they were going to stop access to the US market, and the Canadian side was arguing we had to have this deal or it was going to stop access to the US market. I thought it was incumbent upon our government to make a much stronger argument about the importance of Canada to the United States. The fact is that they are not going to close the wall because we do not put this agreement in place. All of the multinational trade alone would say they are not going to do that.

I think the role those of us who are in opposition to this can play is an educational role, and ultimately can be very active when the election comes. In a democracy, once the election is held, if the government gets a majority, then I guess it has the ability and the right to proceed. If it does not, then I think it equally has the obligation to stop. I do not think the Canadian electorate should be scared that we do not have any choice in 1988. I do not think anybody should buy that somehow we have no choice in this now because this deal has been initialled between the President of the United States and our Prime Minister. In a democracy, and in a sovereign nation, we still have a choice.

Now you ask the question, suppose when we are into this for five years, is it more difficult? The answer is yes. Look at what they are saying about the decision the government was contemplating about the textile industry in Canada today. The Americans are saying, "If you do that, this is going to cancel the free trade deal." Now the test we have to meet is, are we going to continue to be blackmailed from not taking those important decisions? I think it is fairly arrogant for them to take that position before we even get the deal concluded, but once you conclude the deal, those kinds of things are not going to stop.



It will be even more difficult for you in 1989 or 1990 to take certain decisions that the Americans do not think are within their best interests. I think the longer you are into it, the more difficult it is to turn the clock back. That is why I think 1988 is a very crucial year in terms of the Canadian people saying to the government of Canada which direction we want to take.

Mr. Morin-Strom: The preferred approach is not to see the implementation of the agreement at all.

Mr. White: Yes. The preferred approach is not to see the implementation of the agreement. I also remember people arguing about the auto pact. We were saying the auto pact should be kept in place and be built upon for offshore producers, and people were saying, "But do you know the auto pact could be cancelled within one year?" Somehow that was supposed to worry us. This agreement can be cancelled within six months. It clearly spells it out.

Mr. Morin-Strom: Is the auto industry at risk from the cancellation of the agreement at this point?

Mr. White: No, I do not think so at all. The auto industry in Canada has come out in favour of the agreement. We have touched upon that. They do not particularly like to have the safeguards. They would prefer to have much more flexibility all along. When I was in Japan, we made very strenuous arguments to Japanese industry about locating here. Our arguments were all based on the requirements of the auto pact that the American industry had to meet.

What we have done in the auto industry here is that we have really relieved North American industry from the penalties of the important safeguards. We have said to other offshore producers: "There is no advantage for you locating in Canada any more. There is no reason you should do that." I would have predicted that had we done this five years ago, you would not have the GM-Suzuki joint venture going up in Ingersoll. You would not have Honda in Alliston or Toyota in Cambridge. There is no reason for them. They came here because political pressure was building, saying: "You cannot have access to our market. You have to do something like the Americans and start talking about making commitments here."

Then what we have also done in the auto industry is that for the future, we have said to Canada: "You cannot now sit down with the Japanese and put together some kind of auto pact type of arrangement with Honda or Toyota. You cannot do that as a country. Now you have to do that in concert with the Americans." There is a lot of stuff in the auto industry. I do not think people really understand the significance of what Simon Reisman has done here. I was in the cabinet room when we had the meeting with the Premier and he was trying to convince us it was auto pact plus. He left that meeting saying that all the people who counted agreed with him, but I did not think he could count very well.

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Mr. Neumann: I have a number of questions, but I probably will not get them all in. First, I know what you are talking about when you refer to the need for adjustment, not only individuals but communities needing to adjust. In 1981, the federal government announced industrial and labour adjustment programs targeted on certain communities that were facing major dislocations. In our community in Brantford, we benefited from that program. My question is two-pronged.



One, have you had any discussions which give assurance that the federal government is planning adjustment programs for industries or communities that suffer dislocation? Two, does this agreement impair future governments from introducing programs such as the industry and labour adjustment program when we are in a recession and when certain communities get hit hard?

Mr. White: To answer your first question, as Sam Gindin said, the auto industry and ourselves put together a whole manpower program looking to the future of the industry as a particular industry. I have said that to the federal government in talking about adjustment programs, etc. We have not had any response.

The second question is, have we had any meetings since the agreement was initialled to talk about specific responses to the free trade agreement and adjustment policies? The answer is no.

Third, I think it depends upon how the Americans view it. If they view our adjustment policies in the same fashion as some of the east coast governors view unemployment insurance for east coast fishermen, then the answer is that they will probably raise hell about it and say it would be an unfair subsidy. But I think it will depend on how they respond to that.

Mr. Gindin: I should just add here that ILAP had two parts to it. One was adjustment assistance for workers and the other was specifically subsidies to get business into those communities. The latter would clearly be a subsidy vulnerable to what happens over the next five to seven years.

Mr. Neumann: That second point was a very important part of how our community benefited from it.

My second question relates to that experience. Pardon me for becoming parochial, but I do represent my community and where I feel it impacts on this larger question. We have had one example in Brampton recently with Trailmobile purchasing Fruehauf in an attempt to prepare for the larger market, to develop economies of scale which Canadian industries are going to need in order to compete in the North American market. What do you think of the federal government's response to that initiative?

Mr. White: I was just writing a report about it last night. It is absolutely assinine. Here you have Fruehauf purchasing Trailmobile and somehow saying that you cannot continue--

Mr. Neumann: It is the other way around.

Mr. White: --to build vans because of the combines situation. The end result of this can mean a loss of 300 more jobs in the Brantford community. We have been to Ottawa to lobby strenuously against this, but this is now another piece of what they call restructuring to prepare yourself for the new environment, that there have to be larger conglomerates to get around this. Of course, we are opposing it. The company from Brantford joined us in that opposition meeting with the federal officials.

Mr. Neumann: My final question: Some of the questioning I have put to the delegations before us relates to looking at this issue in a very broad sense, in relation to the origins of Canada and the vision we had of building a nation east to west, coast to coast, distinct from the United States.

In entering into a free trade agreement with the United States and with

the potential of longer term, north-south pulls, which you alluded to in your presentation, what do you think will be the long-range implications, one, for Canadian sovereignty, and two, for the public infrastructure that we have built up in this nation to link us east to west in communications, in broadcasting, in transportation, in banking and in many other fields? What are the long-term implications?

Mr. White: I think the long-term implications will be to move to a much more deregulated society which says that the sectors of the country should stand on their own, that they should deal north to south and not be so concerned about the east-west relationship. That is not what our ancestors, the founders of this country, envisioned.

It would have been easy when Canada was founded to make it a part of the United States, but they did not. It took a great deal of initiative and cost to put in the transportation system east to west and to put in a broadcasting system east to west to tie the country together. It would have been very easy, for example, to put in a medical system where a province like Ontario, which was rich, could have a good medical care system and a province like Newfoundland, which was poor, would not have one, but we did not do that; or take unemployment insurance, a national unemployment insurance program across the country.

The Americans did not do any of that. They structured a society much differently and we cannot enter into this much deeper economic integration with this giant and not expect it to affect us. It has to affect us. The pull has to be that way. We are not going to pull the Americans to our standards. It just will not work that way.

This is not the European Community where you have a number of countries of, in some cases, similar size and a lot of different language protections on culture and such things. We are not talking about that here. We are talking about an agreement with one of the giants of the world, so there will be a natural pull to their playing field. When we talk about a level playing field, the natural pull will be to their playing field.

You cannot sit down and put a map together today and say this is exactly what is going to happen, but we are hearing all of the arguments and you are going to hear much more, about competitiveness, about restructuring, about "We can't afford to do that as a social program because of the cost and competitiveness," about the broadcasting industry must be more competitive. Ultimately, we will be able to take some cultural decisions as long as it does not affect the Americans.

Somebody said, "Well, you're nationalistic on these arguments." You have to be nationalistic on this kind of argument. Political sovereignty is at stake here because political sovereignty means the ability to make important domestic and international decisions, and not be subjected to a great deal of economic pressure from outside your nation because you happen to be deeply and economically integrated.

We already have a lot of that now, but we are going to move much, much more to that. This takes us down the road that says the US style of the economic program of survival of the fittest is the best model, which we should use. I just do not think that is the way to go. You cannot start down that road and not expect to be pulled into that kind of playing field.

Mr. Neumann: I do not have a final question but I have one final

comment. When you talk about being nationalistic, I see that as a nationalism which is supportive of a Canadian view of internationalism which is distinct from the United States.

Mr. White: Yes. I just want to say that I have had some experience of living in an international union, and I think we were a good international union, but I had some sense of how Canada was viewed by Americans who were supposed to be people of international understanding. That gave me a sense of what it takes. You cannot be an internationalist unless you come from a strong national base. We are playing a much greater role internationally today as a Canadian union than we were as part of an international union.

I think that is the argument. I do not feel bad about people saying, "You're a nationalist," I think you have to be a nationalist to be in this debate. This does not mean you are anti-American. It does mean, however, that you have a sense of what the potential of this country is and that it does not have to be tied to the United States.

Mr. Chairman: I recall watching the television show on your negotiations when you were involved with the United Automobile Workers.

Mr. White: Yes.

Mr. Chairman: This has been a very valuable experience for the committee. We appreciate your involvement with us. I am reminded to some extent, from the recent interchange you were having with Mr. Neumann, of Mitchell Sharp who spoke to us yesterday. I think it might be interesting if we exchanged papers, his paper and your paper, because I think they complement each other a great deal.

We appreciate what you are doing, the leadership you are providing in this area. I appreciate your coming before us. Thank you very much.

Mr. White: Thank you very much.

Mr. Chairman: Members of the committee should be aware that there is a booklet we are attempting to obtain for you--it was released just last week by the Economic Council of Canada--entitled Managing Adjustment: Policies for Trade Sensitive Industries, which of course is an area that both our witnesses alluded to this morning. We are attempting to obtain copies for you. Mr. McLellan has been through it and recommends it highly as reading information.

We are going to adjourn now until 2 p.m.. For those who are watching us, you have been watching a session of the standing committee on finance and economic affairs of the Ontario Legislature which has been proceeding to hear witnesses regarding the free trade agreement between Canada and the United States. We have just heard from Robert White of the Canadian Auto Workers union. We will have a number of witnesses this afternoon, with particular emphasis on agriculture.

The committee recessed at 12:09 p.m.





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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

TUESDAY, MARCH 8, 1988

Afternoon Sitting

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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Neumann, David E. (Brantford L)

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Pelissero, Harry E. (Lincoln L)

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Substitutions:

Pollock, Jim (Hastings-Peterborough PC) for Mr. Villeneuve

Sola, John (Mississauga East L) for Mr. Ferraro

Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the Christian Farmers Federation of Ontario:

Jongejan, Bill, President

Vanderkooy, Jack, Vice-President

van Donkersgoed, Elbert, Research and Policy Director

From the National Farmers' Union:

Briscoe, Ray-Anne, Regional Co-ordinator, Region 3

From a Group of Farmers:

Ferguson, Ralph

Johnson, John (Dairy)

McCracken, Rick (Poultry)

Muir, Earle (Grapes)

Alderman, David (Wheat)

Szentimrey, Joseph



LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday, March 8, 1988

The committee resumed at 2 p.m. in room 151.

TRADE WITH UNITED STATES  
(continued)

Mr. Chairman: Let us get started. Welcome to the afternoon session of the standing committee on finance and economic affairs of the Ontario Legislature, where we are continuing our proceedings in investigating and attempting to get a handle on the free trade agreement between Canada and the United States.

This afternoon, we have three sets of witnesses, all dealing with the agricultural sector, I expect, although I am sure they will discuss other aspects of the agreement as well. We will begin with the Christian Farmers Federation of Ontario. At 3 p.m., in one hour, we will be hearing from the Ontario division of the National Farmers Union and thereafter from a group of farmers from the Watford district near London, Ontario, who have decided to come together and present a brief to us.

Perhaps the Christian Farmers Federation could come forward first: Bill Jongejan, the president, Jack Vanderkooy, the vice-president and Elbert van Donkersgoed, research and policy director. We have your brief in front of us. Perhaps you could lead us through it and then entertain some questions.

CHRISTIAN FARMERS FEDERATION OF ONTARIO

Mr. Jongejan: Jack is a dairy farmer from Haldimand county and he is vice-president of the organization. I am a pork producer from Huron county and grow some crops. I am not quite sure there is a lot of cash left in them, but we call them cash crops.

Mr. van Donkersgoed: Cashless crops.

Mr. Jongejan: Yes.

Thank you for the opportunity you have given us to present our concerns before you today. You all have a copy of our brief in front of you. It is not lengthy. I will try to highlight it for you this afternoon, but I think I will be reading from it quite extensively. I will start on page 2. The executive summary is on page 1. You can peruse that at your leisure.

We welcome the opportunity to share our concerns and the concerns of what we believe are many farm families about the Canada-US free trade agreement. This document highlights our general attitude towards trade and trade initiatives. We also comment on some of the specifics in the Canada-US free trade agreement.

As a confessional and province-wide general farm organization, we endeavour to put a broad public interest into our major concerns. So that our goals for agriculture will be clearer to you, we have started to work on a "vision statement" about agriculture. This vision of agriculture underlies the

policy and other proposals we make in this brief. That is on page 3. I am going to leave that with you. You can read that too at your leisure.

Let me just say that I think the underlying, main reason for us opposing the agreement, which will come clear to you as we go through this brief, is that our organization has stood for a long time for family farm agriculture. We are concerned for its survival, and I would say that is still our main concern in terms of where this direction will take us. We believe it will only be detrimental to the kind of structure we know in Canada today. If we compare ourselves to the structures which are prevalent in the United States, then we are concerned, if our economies align themselves, where that will take us in the future.

I will start at the bottom of page 3. Our position is that we oppose the Canada-US free trade agreement, as I have just said. We are a general farm organization and we realize that there are some pluses and some minuses in this agreement, but when we added them together and worked them through, we felt that we had no choice but to oppose this agreement. General reasons for opposing it include the following.

We want Canada to take an independent agricultural policy from that taken by the US. Canada has been able to maintain independent family enterprises in poultry production while the US poultry industry has become so integrated that there are few family enterprises left. The US needs massive subsidies and bailouts to keep its milk production stable while we have a strong dairy sector dominated by family enterprises. The industrialization of agriculture has moved forward at such a pace in the US that many rural communities have been destabilized and are now becoming ghettos of the poor. Canadian rural communities have fared much better.

The uniqueness of Canada, we believe, will suffer under the agreement. Canada provides better opportunities and safety nets for those who are of marginal significance to the cash economy. Workers on Canadian farms and in Canadian food processing are better paid than their US counterparts. Canada provides a fairer climate for the individual. We have not allowed the notion that slums are a part of the reality to become part of our mentality.

Canadian agriculture has developed on a regional basis as a result of various regional development programs. We accept this as part of our Canadian reality, a necessary and appropriate part of a distinctive Canada. The agreement will weaken Canada's opportunities for maintaining those development policies. We believe the agreement will increase that disparity in regional differences in this country. Some will benefit more greatly than others. I think it will only widen that gap of disparity. We need to develop stronger interprovincial relationships in this country.

A crisis looms in the background of the very productive agriculture that we, as family farmers, have built in Canada. Our primary resource, the soil, is eroding and degrading while our dominant farming system has become high cost. There is an urgent need for new initiatives to develop stewardship of our food land and develop alternative farming systems--and I emphasize farming systems, not just hodge-podge change of the conventional agriculture as we know it today. We are encouraging the government to develop alternative farming systems--not only the government; we have a role to play in that--that emphasize sustainability, conservation and agroecology. Such initiatives involve interventions that are in conflict with the vision of freer trade. Long-term goals, both economic and social, are not reflected in the day-to-day cash economy, nor can we expect a free and competitive marketplace to honour these goals.

Then we come to some specific reasons. The agreement will cause hardship for the fruit and vegetable growers and their employees. Ontario's fruit and vegetable growers have a higher cost structure than many of their US counterparts. We grow our crops within the urban shadow and must compete for labour and services with a bustling Ontario economy. As tariffs shrink under the agreement, we will be squeezed into a few specialities or into niche marketing.

Much of Ontario's grape production and wine industry is doomed by the agreement, just when the tastebuds of consumers were beginning to appreciate its quality.

In recent years, we have witnessed a growing pattern of food processors moving south. The agreement will speed up the trend, as it will be to their advantage to ship only finished products into the Ontario market.

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Increased poultry imports are unwarranted. Canada has all the resources to produce poultry at a very reasonable price. More imports, either live or processed, will mean that those resources go unused. Unused resources mean missed opportunities.

The agreement puts in question one of the key opportunities for family farmers to expand their enterprises. Further processing of poultry and dairy products, such as yoghurt and ice cream, have significant growth potential, but expanded quotas and the removal of tariffs will allow the US to fill expanding requirements associated with these commodities. As family farmers, we will be deprived of a significant growth opportunity and Canadian processors will lose the opportunity to add value to Canadian production.

We are encouraged that some of these concerns may be mitigated by adding processed poultry and dairy products to the import control list, but recent decisions by the General Agreement on Tariffs and Trade panels leave us concerned about the long-term effectiveness of this approach. We even have some examples for you later on in that regard.

Agriculture is very energy dependent. We have made extensive use of fuel, fertilizers and electricity. We have always considered reasonable energy costs to be a major natural advantage for Canadian farmers. The agreement trades away this natural advantage. We had thought that one of the principles of freer trade was to build on one of your natural advantages, not give them away.

We are unimpressed by the binational dispute panel. It provides no relief from existing US laws and processes regarding countervailing and antidumping actions.

We recognize that there are some positive items for agriculture in the agreement, but none of these are significant enough to balance our general concerns, nor our specific concerns.

Exemption from the US meat import laws are helpful but not a dramatic gain. It is a plus primarily in the context of being pessimistic about the protectionist bent of the US Congress. We have good access to US meat markets now and do not believe in making decisions out of fear of what the US Congress may do. In fact, if that protectionist trend is indeed to be feared, then it is unlikely that the Canada-US free trade agreement will be adopted.



The proposed minimizing of technical differences on agricultural, food and beverage goods appeals to us. However, we will need to see the details to understand them. There is quite a controversy today, I am sure most of you will know, on herbicides.

Conclusion. These kind of capsulize for us where we stand as a general farm organization. We are concerned that much of the support for the Canada-US free trade agreement is based on ideology and rhetoric rather than a careful examination of how the economy works. Free trade is no guarantee of greater prosperity. Agriculture is the best example of the limits that exist to economic gains that can be obtained by expanding international trade. For 15 years, Canadian and the world food producers have been production and trade oriented. This is the situation that we are in today. We believe this got us into this situation of massive world subsidies and surpluses. It has led inevitably to the present circumstances of massive surplus. To survive, we must now cannibalize the markets of our trading partners. More trade is not a solution to the international crisis in agriculture.

Free trade--item 25--understood as more trade--is not, by definition, a benefit to our economy. Being able to trade requires much more than having access to markets. There exists a primary need, an ability to produce competitively over the long term. Some of our members have found out the hard way during the present farm crisis that becoming very productive is no guarantee of viability. Those farm families that still have viable enterprises, in addition to being productive, tend to be self-sufficient wherever possible. Farm families who can fix their own machinery, do their own welding, prepare their own feed, store and dry grain on their farm, be their own vet or do their own accounting, have a distinct advantage in the marketplace. Provincial and national economies are no different. Being self-sufficient wherever possible is as important an economic principle as having access to outside markets. This trade agreement does not balance adequately the benefits of expanded trade with the benefits of self-sufficiency. I think that is an important point. It should not be allowed to set the future direction of our economy.

1410

We were, I think, quite quick out of the starting blocks. In fact, I think we were one of the first general farm organizations to take a position on the agreement and that was because we had developed some parameters or criteria in regard to what we thought would be a good free trade agreement. I think it is still part of the appendix. It is the back page, appendix D.

It is something we adopted back on July 3, 1986. So when we saw quite quickly that this free trade agreement did not meet these criteria, we were quite quick in making a judgement on it. I am just going to read to you one part that stands out in my mind where this free trade agreement fails and that is point 6 at the bottom of the page. We have a number of whereases and a number of resolutions which provide a framework for that criteria but the sixth point, the new bilateral arrangements not shift market advantages away from family farms and not compromise the quality of life provided by the Canadian social and political system. I think it is very important.

Mr. Chairman: Thank you very much and I think it adds to your presentation that you bring to our attention that you were supportive of the discussions but you had those parameters set out and you looked back on those when you made your judgement on the agreement.

Mr. Pelissero: First of all, thank you for the presentation and maybe to start off with the last point in terms of appendix D, has your organization thought of doing another resolution or passing another resolution from its board of directors? I know the resolution states that you support, in principle, the concept of free trade with these parameters. I guess I am to take it that the presentation here today reflected the board of directors' concern with this specific free trade agreement.

Mr. Jongejan: That is correct.

Mr. van Donkersgoed: It is fair to say that this document has been adopted by the provincial board of the federation.

Mr. Pelissero: OK. Good. I notice that you have either contact or relationships with organizations in Alberta and also in Iowa. With respect to the amount of support that we seem to be getting from the west in terms of this free trade agreement, has your sister organization in Alberta taken a position and if so, what has it been with respect to free trade?

Mr. van Donkersgoed: They are sitting on the fence. They have not made a decision.

Mr. Pelissero: What about Iowa?

Mr. van Donkersgoed: The Iowa group is not a very large group and it has not dealt with this particular agreement, but the Alberta group has, indeed, spent a fair bit of time discussing it and so far it has not been able to carry a resolution through its provincial board, either way.

Mr. Pelissero: OK. We have had a number of people come before the committee and talk about the sensitivity of the value of the Canadian versus the American dollar. A question I usually end up asking most groups is where do you think our competitive edge would be at an 85-cent or a 90-cent dollar? Is that a concern? You know, 10 to 15 years ago, we were close to par if not a little higher. Do you have some thoughts and concerns on that?

Mr. Jongejan: That is a real concern and that is why the pluses that seem to be there right now for the red meat industry will soon be taken away when those dollars begin to align themselves.

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I am no prophet, and you know that, but I do believe that as the economies begin to align themselves, as they will, as we set as our goal that we open up to each other and open everything else to each other--in fact, there was some speculation at a farm meeting back in December that it was not part of the agreement that our dollars become closer to each other. Whether or not that was, I think that is still speculation, but I do believe that as the economies align themselves with one another, there is no question in my mind that those dollars will become closer together, which will take away almost any advantage we have right now in terms of pork production.

Mr. Pelissero: Just one quick one: You made a passing reference to what I would call the level playing field, and we will use alachlor as an example. Would you care to comment on that in terms of health standards and usage of pesticides as well.

Mr. Jongejan: We do not have a position on alachlor if that is what you are looking for.



Mr. Pellisero: Where I am coming from is that basically alachlor was not allowed. American farmers have access to it. It is just a product that our farmers do not have. Do you expect American standards to come to our level or do you expect our standards to be compromised in all the technical and health standards?

Mr. Jongejan: I doubt it. I think we are going to lose control of some of those. I think we have fairly healthy health standards in this country. If we are going to align ourselves with an economy that is market-driven, some of those concerns I think will be put on the back burner and I think that should and could be a concern.

Mr. van Donkersgoed: Let me add that we had a horticulture committee just last week and that was a key subject of discussion in that committee, that there are an increasing number of pesticides of various kinds, particularly for the horticultural industry, that are simply not being registered in Canada, partly because we have a smaller market. Because of the fact that we have a separate regulatory system for all of those things, it inevitably means that we have to have a separate economy in order to pay the bills.

The very circumstance is that with a lot of those things, with the Americans there is enough money there that they can put it through the system, get it registered and then have some hope of getting their money back. There is no way they can also do that here in Canada and expect, with a much smaller horticultural community and doing all the work again in Canada, to get that paid for.

The reality today is that our producers do not have access to a significant number of pesticides that the Americans do. It gives them a higher cost structure and I think it is unrealistic to expect--at least I do not see any expectation--that we are suddenly going to adopt American standards for our health standards. We as an organization would not argue for that. We instead argue that we have to assume that our economies have to remain relatively distinct.

Mr. Pollock: A few things: You just mentioned our standards are higher here in Canada than they are in the United States, for a few of the things anyway. Just taking off on that, I understood that in the state of California, they had higher controls on their cars for pollution, and also that two states in the United States had banned landfills and that sort of thing.

Mr. Jongejan: I think that is because they have a more concentrated populace. We are not that far behind as far as that is concerned. I think they have had to. When you get outside in Los Angeles in the morning they tell me that if you breathe that stuff in, you are going to talk to your politician. The city of New York dumps 24,000 tons of garbage a day. I predict the barges will float again pretty soon because all the landfill sites will be full by 1990.

I think that out of emergency, they have had to take some drastic steps. I think this province and this country is not that far behind also in terms of setting some substantially harsher health standards for farmers in terms of pesticide use. In Iowa, for example, there are nitrates and alachlor in every well. If we did some in-depth studies, I think we would find minute levels of the same thing happening here. They have adopted the health standards because they have just had to take them, especially on pollution and so on, but we are not that behind.



Mr. Pollock: Oh, I agree. They have had to because of the situation. I have heard one member of this Legislature say that there is not a well in the United States that is not polluted. We are heading right down that direction quite quickly. I understand there are 60 new landfill sites proposed for Ontario. Mr. Pelissero touched basically on some of the other farm organizations like the pork producers and the beef producers that support the free trade agreement. I talked to Grant Smith, who is the chairman of the Ontario Milk Marketing Board, and he told me he is cautiously optimistic about the free trade agreement. Would you care to comment on that?

Mr. Jongejan: As I said earlier, we are a general farm organization. We realize there are some commodities--I am not quite sure whether dairy would fit into that. I would question whether Mr. Smith should be optimistic. Certainly, there is no question that in the immediate future it looks good for cattle and pork. But in terms of some of the discussion we had earlier on, and being a general farm organization where we have to take a stand, we felt the worst thing we could do as a farm organization was come up to groups of people like you and say, "There are some pluses here; there are some minuses here; there are some pluses over here," and give you a kind of overview of the situation.

We realize that when you are a general farm organization, you have to take a stand, either yes or no. We weighed them and said, "No, it is not good for the things we want to hold high in this province and in this country," and that is family farm agriculture. Just that alone would make us say no to this agreement. Again, as our economies aligned, I think we would be forced, because of market forces, to become bigger corporate structures with more vertical integration taking place in all kinds of commodities. We would have no choice but to do those things in order to compete.

I say to you, is that the kind of thing we want to see happen in this country?

Mr. Pollock: What is there in place right now to stop these big companies taking over right here in Ontario? In fact, in some cases they have.

Mr. Jongejan: That is right.

Mr. Pollock: That is my concern. It has not just happend just lately. It has been over the years.

Mr. Jongejan: It is happening, but I believe there is still a political mindset in this country to preserve that kind of agriculture, a strong rural economy, in which many family farmers, the more the better, can carve out a living for themselves and their families and still have healthy rural communities in which to live and spend their money. That political will I still see here in this country and it is very much in question in the United States. It is a very minority lobby.

Mr. Pollock: I question it here because I have seen it in the dairy business. The story goes that large corporations are taking over in the processing of the milk, that sort of thing. I share your concerns about the family farm. Do not take me wrong. I am not against the family farm, but I do not see it really surviving in the long term in the same way you seem to think it is going to. I hope it will, but I just do see it that way.

Mr. Jongejan: I would say to you that if we go on on this kind of a road of opening up our borders to the United States, for example, that process

will be quicker than we can ever imagine. I agree with you that the industrialization of agriculture is taking place. If anything, I think we see our mandate as an organization to slow that down. We are quite realistic in the sense that it is happening and that in some areas you cannot stop it. It is like a train going down the track that you cannot stop, but we certainly would like to slow it down. We are saying this thing is going to speed it up and that is why we say no to it.

Mr. Pollock: I know, for instance, that when marketing boards came into place, the Ontario Federation of Agriculture opposed it. I had always thought that the marketing boards have actually--

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Mr. Pelissero: Our federation of agriculture?

Mr. Pollock: Yes. I was there at a couple of those meetings. I was in the farming business when you were wearing short pants, Harry.

Interjection.

Mr. Pollock: Not now, but they did at that particular time.

Mr. Chairman: What years would you two be talking about?

Mr. Pollock: Back in the early 1960s.

Mr. J. B. Nixon: Harry was wearing long pants then, I am sure.

Mr. Chairman: Over his diapers. Mr. Mackenzie.

Mr. Mackenzie: --comment that if we wanted to put in place legislation to stop corporate farming, we sure as blazes could not with this free trade agreement. That is the point I think is being made. If you want to sell out the family farm, one additional step is this comprehensive free trade agreement.

The only question I wanted to ask you is--you point out a fair depth to your concern over the issue--what do you think should be done at this point in time? For example, do you support the notion that many have presented to us, that there simply has to be a federal election before this deal is finalized, and should this province be taking a more active role in opposing the current agreement that is on the table?

Mr. Jongejan: I must say to you that we have not taken those kinds of decisions and we are not prepared to say any of those kind of things to you today, such as, "Hey, you must have an election."

I think what we would say to you is to encourage the federal government to go back to the drawing board and work out an agreement that comes through that is more equitable in which some of our criteria are met. I think we gave away too much. As I alluded to in the brief, that balance of self-sufficiency in freer trade is not there. It is way too much balanced one way.

When I hear Premier Getty talk about, "All we want for our farmers is to have the access to markets in the States," I find it unbelievable. Sure, get rid of all that wheat. At what price? Can these farmers survive at that price? "All we want is what Ontario has," and they allude to the car pact. That is not freer trade; that is regulated trade and that is why it works.

Mr. Mackenzie: That is the point I am making. How can we go back to the bargaining table when we have already given up most of our good bargaining chips in the negotiations?

Mr. Jongejan: Exactly. We alluded to natural resources--

Mr. Mackenzie: That is why I say it is one thing to have a very strong position, and your position is a good one, from my point of view, and you have argued it well. But if there is not then some avenue, is it just the position or is it now something that is the purpose of this committee that we should be doing something about? That begs the question, I guess, if it is a political decision, and it appears that is exactly what it is in this country. Do they at least owe it to the people to pass judgement on it because they sure did not before any of the last elections?

Mr. Jongejan: I commend the Ministry of Agriculture and Food, and in fact the Premier (Mr. Peterson), for taking the stand he does. I personally do not feel it is strong enough. I can say that personally. I also feel that the Ministry of Agriculture and Food is somehow trying to nickel and dime it, showing that--

Mr. Mackenzie: I am not sure--

Mr. Jongejan: --we are losing a couple of Big Macs a day on this thing. I think there is more to it than losing a couple of Big Macs a day.

Mr. Chairman: A 10 per cent cut in farm income, that is what they said, is it not?

Mr. van Donkersgoed: I did not see it quantified in that sense, just this \$95 million.

Mr. Chairman: I think Mr. Pelissero in questioning some of the officials had them admit that it broke down to approximately that.

Mr. van Donkersgoed: To the consumer it is a couple of dollars--

Mr. Chairman: Mr. Neumann and then Mr. Haggerty and Mr. McCague.

Mr. Neumann: First of all, I would like to follow up on one of the issues that Mr. Pelissero raised, and that was relating to health and quality regulations that exist from country to country. I know that the United States is contemplating retaliation against the European Community's plans to impose the import of hormone-enhanced meat and the whole issue of the quantity advised in foods and so on. Do you see the free trade agreement as enhancing, reducing or eliminating the ability of Canada to implement independent health and quality standards on food produced or imported?

Mr. van Donkersgoed: Will it limit our ability?

Mr. Neumann: To have an independent policy in this area?

Mr. van Donkersgoed: I think one should assume that Canada will have an independent policy. That is my assumption. Health is too important. I assume nobody is going to play poker, so to speak, with our health. I assume that Canada is indeed going to have its own health standards and health policy.

The implication for me as a researcher for a farm organization is that



it means that we are going to have costs; we are going to have standards to meet that somebody else might not have to meet because they are adopting a different kind of standard for the health of their society. The present circumstance very clearly already indicates that.

Then there is the second factor. If you want to introduce something for Canadian agriculture that is chemical-based or even organic or whatever, in order for it to be properly approved, the cost of that approval in a country such as Canada is probably fairly close to the same cost in a country such as the US. The simple natural implication is that far fewer are going to be approved. There are not going to be the funds in Canada to get as many of them through the system.

To me, the simple implication is that we will not have a level playing field in terms of what we have access to in Canada. I think it is part of our reality. We are fools if we kid ourselves and say that we can have it the same as the Americans, that we can have a level playing field. I do not think it is there, and we are kidding ourselves if we think we can create it.

In that sense, I find the notion, the rhetoric, that says a freer trade relationship with the Americans must in all parameters be good for us simply phoney rhetoric because it cannot be in some very specific ways: our economies, the way we want our regulations to be, some very specific ways. We are just not going to have a level playing field; it just is not there.

Mr. Neumann: My second area of questioning relates to marketing boards. It was held out with great fanfare that marketing boards are unaffected by this agreement, but we have heard evidence from some processors and producers, not all of them, about the finished product, that Canadian processors are afraid that in a continental market they are going to be facing unfair competition from the US food processors. They have larger economies of scale and they can buy in a free market that is not subject to the limitations of a marketing board.

Will that then force Canadian processors perhaps to buy from US sources rather than through the marketing boards or, alternatively, to set up plants in the US and ship the finished products back to Canada? Have marketing boards really been accepted, or is this a fool's paradise?

Mr. Jongejan: If we do away with the two-price wheat system, for example--and that is going to happen, I understand. David Beatty in his speech at the Ontario Outlook Conference made that very clear. He drove that home to us. Right now, there are regulations in place which make me buy Canadian wheat. The president of Weston, by the way, said: "If we get on with this free trade business, I am going to be buying wherever it is cheapest. Sorry."

Mr. Neumann: Why buy through a Canadian marketing board?

Mr. Jongejan: Right. He will go anywhere. Where the dollar dictates, he goes.

I get a little nervous when I hear my peer farmers beat their chests and say, "I can compete with anybody in the world." I get a little nervous about that because I think it is more rhetoric than anything else. In fact, if they sharpened their pencils and took a look at what we really could do in terms of what some of the factory farms are doing elsewhere in the world, I suggest that there is a cost to that too.

In the European Community as well there is a hidden cost in terms of

what they are going to do with their polluted rivers and all the excess liquid manure and so on that they have and all the other problems that are associated with that kind of agriculture. There is a cost to that kind of agriculture. That is why I said earlier to a person before the meeting that agriculture in that sense does not lend itself to industrialization. It is a primary industry. Sure, we can think that we can just continue to produce and produce and produce, but if we do not watch ourselves, in the long term we are not going to have any soil left.

Again, we made clear here that in order to self-determine what is going to happen in conservation and erosion and the soils and so on in this country, we need a policy that will enable us to self-determine and provide those programs.

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Mr. Neumann: In conclusion, I wanted to commend you for your objectives in preserving the family farm. I am a product of the family farm system myself. My dad was a dairy farmer and I know from personal experience what a big change it meant in our farm to have marketing boards and to have the stability they bring to the revenue. I would hate to see us revert to a totally market economy in agriculture, with all of the fluctuations and havoc that that wreaks for individual family farms.

Mr. Chairman: Do you want to add to that?

Mr. Vanderkooy: Yes, if I may. Mr. Neumann, you made a comment about processed products with respect to supply-managed commodities. Your concern is a very valid one, and I think that the more a product is processed--for instance, a dairy product--the more likely it is that a processor or a national grocery chain would be able to bring in those products across the border and circumvent the restrictions that are in place now. I feel that it makes for an unhealthy climate in the future because, on the one hand, we see our industry in general going to a freer trade basis, and then on the other hand, you will find that agriculture--for instance, the supply-managed commodities--will be coming back to government each and every time there is a loophole found for processed goods--for instance, milk or chicken. Society in general will be seeing these farmers continually coming back to the government in order to inhibit more trade, and I think that will put a bad limelight on farmers in general.

The other point I would make is that I believe that supply-managed commodities to a large extent have taken their security with this free trade agreement on the basis of what is written down in the General Agreement on Tariffs and Trade. The reason we are exempted is that the language in the free trade agreement is based on section 11 in the GATT. The free trade negotiations were the finals. Now we are into the semifinals because now we are talking about the GATT negotiations under way in Uruguay. Some of the information we are receiving--and the milk marketing board and the Dairy Farmers of Canada have already alluded to that in part--is that there are some real concerns there about the outcome of those negotiations. If the GATT negotiation is changed, if the language of the agreement with respect to protection of the agricultural products that come under supply management is changed to a significant degree, then where does the free trade act stand?

Mr. van Donkersgoed: Let us just flag one specific item there. One of the GATT panels has just ruled on a complaint by the United States against the import control list of Japan on various agricultural products, and the



GATT panel has ruled that Japan's practice of putting commodities on their import control list is unacceptable under GATT.

Having read some of that material, I would say concerning the present plan of the federal government to put a number of commodities, such as yoghurt and other things it is saying it is going to protect, on the import control list, on the basis of that GATT panel ruling, if it becomes adopted by GATT, that it is going to be very difficult to meet the requirements that panel is setting and add anything to the import control list.

Certainly from looking at some of that material I might myself feel very uncomfortable with the federal government assuming that it can very quickly put a number of these commodities now not under the import control list on it as it removes the tariffs under the free trade agreement. As a matter of fact, I would suggest that we have got a major problem.

Mr. Haggerty: I am looking at The Canada-US Free Trade Agreement and Canadian Consumers as it relates to the marketing board and at your point 8, "Increased poultry imports are unwarranted." Yet in the federal document under "Marketing Boards" it says, "Canada will maintain the import restrictions associated with supply management programs of agricultural marketing boards for grains, dairy, poultry and egg industries." You have made your comment there about increases. Where do you get that information?

Mr. van Donkersgoed: There is another clause in the agreement which says that the global import of poultry products will be increased to the--oh dear, I do not have the words in my head--it would be increased on the basis of actual imports. The global control of poultry has been fixed since the marketing boards were established, but there have always been supplementaries whenever there has been an additional need in the market. Those supplementaries are now going to be added into the global, so a significant chunk of the Canadian market is being given away to the Americans as part of the agreement.

Mr. Haggerty: You say that is in the agreement?

Mr. van Donkersgoed: That is in the agreement right now.

Mr. Haggerty: But it is hidden someplace.

Mr. van Donkersgoed: No, it is a very plain phrase in there. I cannot point it out to you off the top of my head.

Mr. Haggerty: Is it in this document?

Mr. van Donkersgoed: It is in either that one or a more detailed one. I am not sure if it is in that summary document.

Mr. Haggerty: I am just looking at page 13.

Mr. van Donkersgoed: It is very specifically in the document that what in the past have been supplementary imports of chicken will now become part of a new global quota, which means that it is a guaranteed access for the Americans.

Mr. Haggerty: Within the last three years the marketing board in broilers in Ontario has opened up its quotas. Some of the industry people have enlarged their quotas right now, I guess hoping that before the free trade deal--I do not know.



The reason I am concerned about it is that I have a processing firm in Port Colborne, Port Colborne Poultry, that does quite an intensive business there and employs some 300 persons overall. It is one of the largest industries in the area. I know that a few years ago they were a little bit concerned because they were allowing the live birds to come in and go to Maple Lodge up around Milton or someplace in that area.

Mr. van Donkersgoed: There is another factor behind our statement there, and that is that a lot of the growth in chicken is as a result of further processing. It is our perception that a significant amount of the further processing can be done in the US and that it can then be imported once the tariffs are removed; and unless we can get all kinds of partially or further processed product on the import control list, that expansion of the market for chicken will all go to the Americans. Our family farmers will not have access to that expansion.

Mr. Haggerty: What you are telling me, then, is that under the present rules, live birds are permitted to come into Ontario or into Canada without any restrictions. I think there is a certain restriction on it, but you are suggesting now that the processing of the birds will be coming in from the Americans, that there is that possibility. Has that been confirmed?

Mr. van Donkersgoed: Further processed chicken increasingly will be coming in from the US. Somebody has used the example of chicken pot pies. There will be lots of chicken coming in in chicken pot pies.

Mr. Jongejan: That is the growth market, too.

Mr. van Donkersgoed: That is where the growth is taking place, that kind of further processing of chicken.

Mr. Haggerty: I thought maybe processed poultry meat would be coming in.

Mr. van Donkersgoed: Yes, the processed meat would be coming in, not the live birds.

Mr. Haggerty: So there is that possibility that you could see the industry almost being wiped out.

Mr. van Donkersgoed: We do not see the industry being wiped out under the present rules, but we see any potential for expanding, any further growth in chicken--and chicken has been a growth area for the past 15 years; consumers have been going after an increasing amount of chicken--we see Canadian family farmers losing any potential to provide the Canadian consumer the additional chicken that they are going to eat. Any growth in chicken consumption by Canadians is going to come from the US under this arrangement.

Mr. Haggerty: You talked before about the vertical integration of the agricultural sector. We have seen in the past in regard to the Niagara Peninsula, particularly in the tender fruit business, that at one time all the canning was done in that area. Then we have seen the vertical integration of the larger canning industries from the United States gradually move in and take control of that. There is very little canning done now in Ontario. When you talk about that, is there that possibility of vertical integration in the poultry sector?

Mr. van Donkersgoed: If processed chicken has relatively free access into Canada, there is every reason to expect that the processing will be done down south.

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Mr. Chairman: I think you were referring to article 706, which is on page 84 of the agreement, supplemented by annex 706 on page 119, which in fact lists situations.

Mr. Haggerty: It apparently is not in the document that I have.

Mr. Haggerty: Just on that point, perhaps when you see this document here, and the flyers that have been sent out by the Conservative government of Canada--

Mr. Chairman: Do not read those things. We are just distributing those to be fair. We are not asking you to read those.

Mr. Haggerty: No, but comments have been made before and I have read some of those documents that they sent out, and in fact, you could say that it is misleading information, that the public is really being--

Mr. van Donkersgoed: We have learned that we have to read the fine print.

Mr. Pollock: I understood that they have increased the quota on chicken coming in from 6.2 to 7.5. However, before the broilers could come in and that was only the 6.2, but now chicken pot pie, and all that stuff came in quota free before. That was my understanding. I cannot seem to get a handle on whether the 7.5 is the limit overall, whether that includes--

Mr. Chairman: It would seem to be the maximum, from article 706. Do you want to take a look at that?

Mr. McCague: You started off your presentation by saying what was uppermost in your mind when you decided to oppose this agreement. Do you think it was realistic to ever hope that the agreement would be such that you could feel that your aim, your underlying or overriding aim, whatever aim it was, would be satisfied?

Mr. Jongejan: Quite frankly, sir, I did not expect it to meet any expectations that I had or that my organization had, because I think, as we pointed out in our brief, we see this being very much geared by economic forces. They say, "This is going to open up all kinds of things for Canada." That kind of rhetoric is what we are hearing. "This is what we need," or "this is what Canadian people want." I guess I am afraid, as a family farmer, that a lot of other social structures and social programs will be sold down the river just for the sake of these kinds of goals. I did not expect them to be entrenched in the agreement at all, but I see that very much as our role, as a farm organization, to highlight those concerns that we have, so that I did not expect it, no.

Mr. McCague: Is that a personal opinion or an association opinion?

Mr. Jongejan: I think that would be shared generally by most of the people in our organization.

Mr. McCague: What I would like to get at is, you have a good brief, you have a good aim in life, nobody argues with that. What I would argue with is what you put on the back page. Why did you ever do it in the first place if you did not expect it to be met, and if it had been met, you might have found yourself in the same position that you do today.

Mr. Jongejan: If it had been met, like I say, we would urge the federal government to go back to the drawing board, work out an agreement which would balance more, the concepts of self-sufficiency for this country and freer trade. We are not opposed to freer trade per se, but if those things were balanced more, we say, more power to you. Let us go back to the drawing board and let us work that out.

Mr. McCague: I do not say for a moment that your goals are unrealistic, but I think what is unrealistic is for you to ever hope that there will be any agreement that will meet your ideals in that matter. I guess I am saying, sure, you point out many reasons in here why you would like them to go back and renegotiate and that if the balance is swung a little bit you might find yourselves, in spite of your aims, having to endorse it. I guess that is what you are saying.

Mr. Jongejan: Yes.

Mr. McCague: I think also that the point I made is-- That is why I ask you if that was your opinion or the association's.

Mr. van Donkersgoed: Let me make an observation as a researcher for the organization. One of the things that we have said in our discussions is that we have in Ontario the benefits of trade.

Mr. McCague: Yes.

Mr. van Donkersgoed: And we are very uncomfortable with the notion that more means a stronger economy. So when we look at our own family-farm enterprises and what we have gone through during the past six or seven years in the farm prices, it has been driven home to a lot of farmer families that the solution to a difficulty on the farm is not always to produce more and trade more. Sometimes the solution is to be more self-sufficient and even accept some reduction in trade as a result and you have got to keep the two in balance.

Part of our sense of the present circumstance, part of our reaction to the agreement, is a gut negative reaction that is a very economic reaction, not just one that is based on our concern for family farm and stewardship, but also a gut feeling about the economics of this deal that we are kidding ourselves if we think there are unlimited benefits to be gained by more and more trade. There needs to be a balance in any economy and we think we have got the benefits from trade. We really do not see in this direction a real economic gain to be had.

Mr. McCague: I have no disagreement with what you are saying except that you say that the "Christian Farmers Federation of Ontario support agriculture's inclusion in the US bilateral trade talks subject to the following." You have some good points in there, but I think the realism of the whole thing is that if you are going to have a free trade agreement with the United States, you are bound to have the problems that you are talking about today two years before they even started talking. That is my point.



Mr. van Donkersgoed: I do not think so. I think if we could have come out of this with the sincere feeling that this--I think it would have been better if somebody called this a "fair trade" agreement rather than a freer trade agreement. Then the chances would have been much greater that we could have been comfortable with it at some point, depending on what was in it. I think it is fair to say about this process that we were willing to give it an honest chance.

Bill's reflection on how he feels personally is also an honest reflection that simply packaging it in the notion of freer trade means more or means better left us uncomfortable. If someone had packaged this in the form of "we want fairer trade with the Americans," we have a lot of sympathy for that. But this package is assumed to be doing far more and it is reaching for things that we think are going to hurt us a lot.

Mr. Sola: I am intrigued by the statement you make that the industrialization of agriculture has caused many rural communities to become ghettos of the poor. Could you elaborate on that, please?

Mr. Pelissero: Ask him if he has an hour and a half.

Mr. Jongejan: I will try to be very brief. I think that the Americans have accepted ghettos as reality, but that becomes part of a lifestyle that determines you can have rich on one side over here--that is fine--but over on this side there has to be poor people because that is the way things are in the kind of society that we call the American way of life. I think we have some ghettos in this country, but they are minute compared to what we have in the United States. That, again, disturbs me. If I have to align myself with a trading partner that has those kind of values, that disturbs me.

Mr. Sola: So you are claiming that is a deliberate policy--

Mr. Jongejan: They have accepted it as reality and I think this country will resist that.

Mr. Sola: In terms of the social values.

Mr. Jongejan: No. We have shown that--

Mr. van Donkersgoed: Let us not have you put words in our mouths. We would not say it is a deliberate policy on their part. I think there are some sincere people in the US. They have not figured out how they can do something about it. We have, and let us keep it that way.

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Mr. Jongejan: We are talking about minimum wage requirements. That is one aspect. That is one of the reasons we have the California lettuce that comes up here at the price that it does. It is because they have very few standards for what they pay their labour.

Mr. Sola: OK. With the industrialization that is happening in our country, how do we avoid going in the same direction?

Mr. Jongejan: It will not take place to such an extent if we have those social programs in place. It will not take place to such an extent that it already has in the United States.

Mr. Vanderkooy: I might add to that just the very fact that we have accepted supply management for a number of commodities in this country. As the Christian Farmers Federation of Ontario, we have always spoken very much in favour of maximum limits, which to a large extent support the idea of a family farm, where supply management can be seen as a hindrance for the industrialization of agriculture. I think we accept the fact that there is a price to be paid to society for that, but as Christian farmers, we are saying on the other hand that there is a social benefit.

Mr. Sola: One more question, or actually a statement. I am intrigued by the statement you make which seems to fly in the face of the image that the federal government is projecting that anybody in favour of the free trade deal is the macho-type, self-confident man. Your statement on page 6 seems to say that the free trade deal was approached out of fear of retaliatory measures. You are sort of throwing Simon Reisman's statement in his face and turning it around: The ones who are pro-free trade are actually the ones acting out of fear, and those opposing it are actually the ones who are confident in themselves.

Mr. Jongejan: Yes. I see a lot of the rhetoric coming from the federal government saying, "If this is not put in place, then the omnibus bill will certainly nullify it, so let's get it in place quickly first." Quite frankly, I do not see this. The protectionist movement in the United States is very strong and I really do not see this flying in.

Mr. van Donkersgoed: I have an additional comment. That comment is also particularly apropos to that part of the farm community that supports the agreement. Much of that support is based on their fear of the protectionist bent, or they assume there is a protectionist bent in the US.

Most of the comments, particularly by pork and beef producers, who favour the agreement, are made in the context that this will keep us out of the omnibus trade bill or will slow down the protectionists as far as we are concerned. We just do not think that is a good enough reason to consider supporting this agreement. It is a plus that is the reality, but it is not a sufficient reason to give this agreement serious consideration.

Mr. Chairman: Mr. Pelissero has a very quick last point.

Mr. Pelissero: Just to try to clear up whether the global imports are a minimum or a maximum, they are in fact a minimum, because in the agreement it says "shall not be less than," and it talks about the chicken, eggs and turkey. Referring to annex 706, which is on page 119, it goes on to list, "For the purposes of article 706" chicken means this and turkey means this. Even though we have identified what chicken means, items 2 and 3 say that chicken is not meant to include such things as chicken TV dinners and spent fowls, which are commonly known as stewing hens, and for turkey it does not include turkey TV dinners.

While they have increased what you can bring the global levels up to, in some cases in the chicken industry to 7.5 per cent, that is just a reflection of what has happened in terms of the processors being very innovative in getting around the import quotas and simply shorting the market in, say, 2.5-pound birds and we require a three-pound or 3.5-pound bird in order to bring product in.

Taking Bill's earlier comment, I do not think the supply-managed marketing boards should feel that they have gotten away with anything or that

they should be relieved. As I have said before, that article in here with respect to supply management is a red herring, because under GATT, a country has the ability to supply its own domestic need.

Mr. Chairman: Mr. McCague has a rebuttal for clarification.

Mr. McCague: Just for clarification, though. As I understand it, what is written in the agreement reflects the status quo.

Mr. Pelissero: That is correct.

Mr. McCague: OK.

Mr. Pelissero: But the status quo is that, because we are multilateral players under GATT, it is a given that any country has the ability. As I say, by having it written in there, nobody really won or lost anything. The perception is that agriculture won something by having it written in. I maintain that was a bit of a red herring because we had that right all along anyway.

Mr. Chairman: You have obviously sparked an interesting debate--

Interjections.

Mr. Chairman: We appreciate your brief. It was well done and we will certainly be considering it when we write our report. Thank you.

Mr. Jongejan: Thank you very much.

Mr. McCague: I have a blue one here too. Can I see that one?

Mr. van Donkersgoed: Is that the one we presented to the cabinet four months ago?

Mr. McCague: No, this is a different one.

Interjection.

Mr. McCague: It is a blue one. It would be red.

Interjection: Actually, it was yellow.

Mr. McCague: No, I have a blue one here.

Interjection: Which one is that?

Interjection: That was the one that was presented to the Progressive Conservative Party.

Interjection: I have not even got that one in my hands yet.

Mr. McCague: They will send you one.

Interjection: Yes, I am sure they will.

Mr. McCague: It is much the same.

Mr. Chairman: Our next witnesses are the National Farmers' Union. We



have, on behalf of the union, Ms. Raye-Anne Briscoe, the regional co-ordinator for the Ontario division. There is a brief, which is in front of you. Welcome to the committee, Ms. Briscoe. Perhaps you could lead us through your brief and then entertain questions.

NATIONAL FARMERS' UNION

Ms. Briscoe: I shall do so. Thank you very much, Mr. Chairman, and good afternoon, gentlemen. I guess I cannot say "ladies," unfortunately.

The National Farmers' Union welcomes this opportunity to place on the record some of our views and concerns respecting the recently signed Canada-US free trade agreement.

By way of background, the National Farmers' Union is a direct, voluntary membership organization of farm families. The major source of our finances is received through the annual payment of membership dues. We are a general farm organization inasmuch as our members are engaged in the production of a broad spectrum of farm commodities.

This being the case, our organization has acquired a broad perspective of the possible implications to farmers of the free trade agreement. We have concluded that its disadvantages will far outweigh any minor or short-term advantages that may accrue to individual sectors in agriculture.

Comparing the agriculture systems, we believe the philosophical policy approach to agriculture in Canada differs from that in the United States in some fundamental ways.

In Canada we have for many years supported the broad concepts of orderly marketing and supply management. Powers legislated at the federal and provincial levels have enabled producers to take collective action in the organization of numerous commodity marketing boards, which have become an integral part of the industry.

In 1984-85, for example, farm cash receipts nationally totalled \$20.3 billion. Of that amount, \$11.4 billion, representing 56 per cent of total producers' receipts, was earned through 115 marketing agencies. In that same year, 23 marketing boards operated in this province and accounted for \$3 billion or 57 per cent of total cash receipts.

By contrast, the United States approach to marketing farm products is much more market oriented and, as a consequence, has been subject to greater industrialization and vertical integration.

This is particularly evident in such commodities as broiler chickens, turkeys and eggs. Our production of these commodities is patterned to meet domestic consumption needs: regulated to assure price stability and allocated to assure every region a market share. No similar constraints to the production of these products exists in the United States.

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Consider the statement made in April 1986 by Alan Pope, president of the United Egg Producers in the United States, wherein he noted that the United States had 25,000 egg producers in 1975 but only 1,700 in 1986 and not all of those were profitable. He reported further that 61 individual companies owned 56 per cent or about 140 million layers of the United States laying flock.

More importantly, Cargill Inc. of Minneapolis, Minnesota, and Cal-Maine Foods Ltd., Jackson, Mississippi, have more laying hens between them than all of Canada's regulated producers together.

We reject outright this approach to food production, but we recognize the possibility of it happening in the move towards achieving a "level playing field."

Our federal Minister of Agriculture, the Honourable John Wise, has repeatedly stated that marketing boards are secure under a free trade agreement. We totally disagree.

The Grocery Products Manufacturers of Canada also disagree. They state categorically that marketing boards without tariffs make no sense. The manufacturers are seeking lower farm production prices in order to remain competitive with United States processors. They cannot achieve that when farm product prices here are established through cost formulas.

The Canadian Food Processors Association estimates that in Ontario 20 processing plants would close immediately and another 15 would seriously curtail their operations with the immediate loss of 3,000 jobs should this agreement come into force.

It is a question of lower United States prices, economies of scale, lower wages and input costs and a less harsh climate, resulting in lower overall production costs.

United States products do not enjoy many of the stabilization and crop insurance programs in effect in Canada. While some might argue that these programs keep food costs artificially high, the truth is they at times have also helped keep farmers in business.

The Canadian Wheat Board is a prairie grain marketing agency that has been extremely successful. Although a federal crown corporation, the cost of its operations are borne by the producers. It is deeply concerned about the implications of free trade.

Assistant Chief Commissioner Larry Kristjanson told the NFU 18th annual convention in January 1988 of some of the board's concerns about free trade. Mr. Kristjanson stated that difficulties for the Canadian system will arise more from the changed circumstances created by the agreement than from the agreement itself. He referred to pressure points that would be created if and when subsidies come in line and the border opens. These include, and I would like to read just four main pressure points as Mr. Kristjanson indicated them, and I quote:

"1. Two-price wheat. This could not be continued with an open border. However, the policy is being discontinued anyway, and the government has indicated it will make up the two-price benefit in some other way." Of course, as an aside, the government has failed to indicate how it will disguise such payments to not be classified as subsidies by the US.

"2. Access to the US market. Shipment of Canadian grain to the US, especially milling wheat, is politically sensitive and will remain so with or without a free trade agreement. While the agreement may limit restrictions on these shipments, it does not prevent the US from retaliating by increasing subsidies in offshore markets or on other commodities.

"3. CWB export controls. An open border could lead to challenges of the CWB system. US farmers will be able to bring grain across the border, but Canadian farmers will not be able to sell into the US without delivering to the board and receiving an export licence. Even under these circumstances, the board is not likely to allow permits because it may need the supplies for sales contracts. This could prompt many farmers and some farm groups to demand lifting of CWB licensing to the US. Control of export licences is an essential part of pooling and single-desk selling.

"4. Permanent opening of the border. The agreement calls for CWB import controls to be lifted once subsidies in both countries are relatively equal. This will be determined based on an annual calculation. Although wheat and barley subsidies have recently been much higher in the US, this could change if world markets strengthen or if the Canadian dollar strengthens against US. Once the border opens, it appears it will be difficult to reimpose import controls, even if relative subsidies again become higher in the US. We understand that controls can only be reimposed if domestic market share were lost due to changes in US programs."

Ontario grains will in many ways be similarly affected. Certainly the loss of two-priced wheat has hit hard at Ontario producers. On the matter of US access for grain and grain products, Canada is left vulnerable. While section 7:05 refers to issuing end-use certificates, the use of such certificates is discretionary on Canada's part since the word "may" is used instead of "shall." We can well imagine the pressure that will be applied by importers to be exempted from using end-use certificates. Heavy grain product imports can be expected as the agreement takes effect, with serious implications for the future structure of the bakery, brewing and milling industries.

Corporate pressures: We have already referred to claims of the manufacturers and processing industries relative to their difficulty in competing against US imports because of higher food input costs in Canada. Additional corporate pressures on orderly marketing systems are already evident in the behaviour of retail food giants.

Supermarket specials on grade A large eggs have created serious problems for the Ontario Egg Producers' Marketing Board. By selling grade A large eggs below the price of mediums, the supermarkets have created a shortage of grade A large eggs, thereby justifying imports of cheaper US eggs. This in turn has created surpluses of grade A medium eggs, which the marketing agency has been forced to sell to processors at reduced prices. This is an example of how the effectiveness of egg marketing boards can be scuttled, notwithstanding the recommendations of the National Farm Products Marketing Council task force recommendation to the Canadian Egg Marketing Agency to change its nationwide pricing system.

Recently, because of processor pressure, the Canadian Import Tribunal reduced the duty on American corn entering Ontario from \$1.10 per bushel to 46 cents. Bruce McNaughton, executive vice-president of Casco, a subsidiary of Canada Starch Ltd., stated: "We've got to make the government understand that marketing boards and two-priced systems don't work in a free trade environment. We must have our industry competing on equal footing with the US."

Recently in Manitoba, Burt Waters, chairman of the Manitoba Chicken Broiler Producers' Marketing Board, told of heavy imports of North Carolina and Georgia chicken parts, and marketed through Westfair's SuperValu stores, creating strong downward pressure on Canadian chicken prices. The American



chicken was rewrapped before going on to shelves so consumers would not know its origin. By concentrating heavy chicken imports in local markets within a region such as Manitoba, which has a relatively small share of the global Canadian production quota, the effectiveness of a marketing agency can be broken and producers can be forced into eventual bankruptcy. Surplus chicken from such regions end up being dumped into other provinces.

We are of the opinion that if the provisions of the agreement are in fact instituted after January 1, 1989, corporate pressures against Canadian farm product prices will increase dramatically on all products. Our general approach to attain relative self-sufficiency in production and stability in price will be seriously undermined through loophole provisions in the agreement which allow supplementary import permits to be issued under certain conditions. We have no doubt that the corporate sector will manipulate supplies and create the conditions to break any powers which marketing agencies may have at this time.

While the federal Minister of Agriculture has made much of the supposed preservation of the marketing board system, which he says was not on the free trade agreement bargaining table, we are at the same time mindful of the January 28, 1987, statement of Daniel Amstutz, US Undersecretary of International Affairs, in which he said: "The concept of marketing boards is not on the table. How they function is on the table. We are seeking fundamental changes."

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The Amstutz statement is reflected in the recent recommendations of the National Farm Products Marketing Council respecting the formation of a much watered down version of a national potato marketing agency, which will do absolutely nothing to upset or reorder the conditions that have contributed to our producer exploitation for years.

The toothless nature of the proposed agency, endorsed by Agriculture Minister Wise, will be more functional to the trade than to the producers. Under free trade, this could well be the future fate of all supply-managed marketing boards. It leads one to believe that the National Farm Products Marketing Council heeded the concerns signalled by Canada's chief free trade negotiator, Simon Reisman, that full marketing powers for a potato agency would run counter to the spirit of the free trade agreement.

Article 710 of the FTA states that General Agreement on Tariffs and Trade rights and obligations, including article XI, are retained for all agricultural trade not specifically dealt with in the agreement. For example, Canadian dairy farmers will continue to benefit from supply-management programs since these are not affected by the agreement and are consistent with Canada's GATT obligations.

On January 13, the Honourable John Wise, in addressing the Ontario Milk Marketing Board annual meeting, told delegates Canada was imposing quotas on imports of a long list of dairy products, making sure they do not come through a back door in the Canada-US free trade agreement. The controls on imports included ice cream and yoghurt.

Many of our members remain sceptical over the government's move. Tariffs on these commodities will be phased out over the next 10 years. As we have witnessed already, loopholes exist to supplement import quotas on other products when the corporate sector considers it expedient. But of even greater

concern may be the direction of GATT negotiations and the future of article XI referred to in the FTA. Canada, after all, was recently declared the richest provider of dairy subsidies of all Organization for Economic Co-operation and Development countries.

As a member of the Cairns group of nations, Canada was, on October 26, 1987, a signatory to a proposal to the Uruguay round negotiating group on agriculture. The introductory paragraph of that proposal states: "The fundamental aim of the proposal is to provide the means to achieve fully liberalized trade in agriculture, to eliminate distortive agricultural policies and to bind the necessary undertakings under strengthened GATT rules and disciplines, taking into account the general principles governing the negotiations."

As we have observed in recent months, certain GATT rulings relating to Canadian restrictions on liquor imports have found Canada in contravention. Since the stated objective for future trade in agriculture is to liberalize trade and eliminate distortive agricultural policies, we suspect the minister's recent move to protect the dairy industry may not stand the test of time.

Following his address to the OMMB, Wise is reported to have told the press that he cannot make as firm a commitment to protect supply management for the poultry and dairy industries in the current GATT negotiations as was offered during the Canada-US free trade talks because these negotiations are far more complex. He added that people in supply-managed product will always have to be concerned about losing their monopoly clout to control production and set prices.

In the case of dairy products, we appear to be in a situation where if the FTA does not get you, the GATT will. We can rely on corporate pressures to restructure the dairy industry to comply with their marketing objectives just as they are doing in eggs, broilers and processing vegetables.

The wine industry rated a special chapter under the FTA and it has been generally conceded that much of the industry will be decimated. Grape producers, of course, will be most affected.

Growers have just recently had the protection of \$1.10 per bushel tariff on corn reduced to 46 cents per bushel. The tariff, originally in effect since November 1986, was found necessary after it was determined American corn growers were subsidized and cheap US corn imports were hurting Canadian producers. Still, the processors are continuing pressure to have the remaining 46 cents per bushel removed, claiming it flies in the face of the FTA and that they are unable to compete with the US processors who have access to cheaper product. We expect the pressure will continue to be exerted on corn prices until our producers are once again totally vulnerable to American imports.

Some livestock producers still feel that the FTA will provide a boon to their industry and that they will be able to successfully compete and export livestock and red meats to the American market. We believe any advantage Canadian producers may now feel they have in exporting beef and pork to the United States is largely discretionary upon the part of the meat processing industry.

One very important dimension in this agreement as it applies to red meat producers is Canada's commitment to relax our blue tongue regulations on cattle imports and pseudorabies rules on live hogs moving directly to packing



plants for slaughter. We have in fact agreed to lower our health standards in order to set the stage for larger imports of American cattle and hogs. This has serious future implications for the reputation and access for Canadian purebred cattle exports into offshore markets.

Hog producers should be concerned about meat packing plants having been able, through this relaxed health rule for hogs, to break the monopoly selling position of the Ontario Pork Producers' Marketing Board.

Should the Canadian dollar continue to rise against the American dollar, the economics of processing American hogs in ever-increasing numbers would represent a good corporate strategy to keep Ontario hog prices at depressed levels. We cannot assume that our superior grading system will provide an adequate shield to protect producers against imports.

In summary, the potential economic integration of the Canadian agricultural industry with that of the United States will drown our producers in the backwash of American production. Free trade is equivalent to allowing free market forces to act as the primary price-determining factor. Without tariffs, import licensing, adequate health and inspection regulations, support and/or stabilization programs, Canada is essentially opting for a laissez-faire agricultural policy which will result in a much contracted and industrialized fraction of our current production potential.

The implications to farm families under this scenario does not leave much to the imagination.

All of which is respectfully submitted by the Ontario region, National Farmers' Union.

Mr. Chairman: Thank you very much. It has been a very perceptive brief and it has sparked no less than six questioners: Mr. Haggerty, Mr. Mackenzie, Mr. McCague, Mr. Pelissero, Mr. Morin-Strom and Mr. Nixon.

Mr. Haggerty: Thank you for your excellent brief this afternoon. I am looking at a document which is the report of the House of Commons standing committee on external affairs and international trade on the elements of the Canada-United States free trade agreement tabled in the House of Commons, October 5, 1987. On page 11 of that report--I guess this would be Wayne Easter, president of the National Farmers' Union--

Ms. Briscoe: Correct; he did appear before that committee, and I did as well.

Mr. Haggerty: He raised some concerns at the hearing there. I was looking at one particular paragraph where he talks about the grain subsidy given through the Western Grain Transportation Act and the Crow benefit payments. He says it "will lead to lower prices to farmers as processors attempt to remain competitive with the United States." Then he goes on to say, "This will put further pressure on marketing boards as the United States will become the price-setter for supply-managed products."

I think you are aware of the cartel during the oil crisis in the Middle East where we had Aramco looking at an agreement with the oil-producing countries there to establish a fair price for them, and apparently to offset the decision of the American government to be the price-setter in this particular area, it said what it would pay for the wellhead price of oil, but it eventually had to give in to the oil-producing countries, which said that



they were going to set the price. But the Americans won out in the long run because the seven largest oil producers in the world indicated that one way to get around this would be if they set the price; they would be the price-setters in oil.

I sense by his comments there that when we talk about free trade and continental trade on the North American market, the United States is going to use the same format that it used in the settling of the oil dispute and that it will be the price-setters.

What if the dollar value goes down or up here? There have been a number of witnesses who appeared before the committee indicating that as soon as the Canadian dollar gets up to 80 or 82 cents, we should forget about the free trade agreement with the United States. Is there that possibility, using that same scenario, that they could be establishing the price for all agricultural products throughout the world, because this is just a stepping stone because of that omnibus bill?

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Ms. Briscoe: If I understood your question properly, I hope my response is something in the terms that you are looking for. If not, please reword what you said, or something like that.

Interjections.

Ms. Briscoe: Anyway, I do not mean to be facetious. My response would be that I think you are targeting on exactly the right area, as we perceive it, in that in the philosophical approach to the trade agreement, what is really happening here as we interpret it, is that the American--not necessarily yes but necessarily--government and/or the American food processors, if we just relate it directly to the food processing industry, have decided--and I would take it then and step it even into the energy question--that they will have two things: they will have access to our resources, including our raw product food or our raw product gas, and they will, of course, decide what they intend to pay for it. Is that what you are asking me?

Mr. Haggerty: That is right. I mean, they are following the same scenario for that one as for the oil crisis.

Ms. Briscoe: That, of course, destroys any type of marketing approach that we might put towards our energy system, our agriculture system or anything else. The Americans are making the decisions in that case to our greatest detriment as a nation.

Mr. Haggerty: You do mention in your brief this afternoon your fear of the vertical integration of the agricultural sector in the United States.

Ms. Briscoe: Exactly, but most importantly I want to re-emphasize the fact that, all things being equal, marketing boards would still remain in place to market. You know, the title would still remain, but it is gutted from the inside out.

Mr. Mackenzie: There is no question in my mind that what we have is a decision on whether or not the marketplace is going to make all of the decisions and whether it is in the political or national interest or not.

I guess my question is a simple one, one I have asked a number of other groups. Your brief is certainly a powerful one. What is the next step? Two things in particular, I guess, as far as this committee is concerned: (1) Does this government have an obligation to be much tougher than it has been in saying Ontario is just not going to be part of this or do whatever we can to stop it? (2) Should there be an election and should the people have a chance to make a decision on this in terms of an election? Certainly, they have not had the option of taking part in any debate leading up to the suggested free trade agreement, and I guess I am just trying to get at what should or has to be the next step.

Ms. Briscoe: Just on one point I would like to refer to the last gentleman's question. Our discussion here in answering those questions, I think, is a perfect indication that this is not a trade agreement we are talking about. My response to him certainly related to the ability of this country to make its own political decisions. But that is not trade; that is political decision-making, that is sovereignty.

To go to your question, the National Farmers' Union, along with a group that represents about 12 million Canadians, which is known and I know you are aware of it--it is the Pro-Canada Network--is asking very much that Canadians be given the opportunity to go to the polls and make a decision on this. They have to have at least a chance, we hope, to have openness in an election campaign process. Up to this point, we have had absolute or virtual secrecy through the whole exercise and a time line that at times was something you thought you had read in a comic book or in science fiction, where people sat up till one or two o'clock in the morning wondering which guy was going to jump out and say: "We got an agreement. Yea! Here is the lollipop." It turned out that it was an American who told us we had an agreement, not our own negotiator anyway. So it was almost to the point of being ridiculous.

So yes, Canadians deserve an election. Yes, we are calling for an election and we very much would encourage especially the Premier of this province. If arrangements could be made for him to travel this country, he would be amazed to note the support that there is for the position your government has taken, particularly in Alberta, where recently I just came off a seven-day speaking tour. Mind you, they are bereft of any leadership in that area in that province related to this agreement and would welcome the opportunity to have a travelling road show of Ontario Liberals.

Mr. Haggerty: You missed the big one in Regina yesterday, did you?

Ms. Briscoe: Yes. I will not talk about that one. We would appreciate, as well, the involvement of your government in vocal support of the Pro-Canada Network and all of the organizations, including the churches, the cultural community, the nurses, the teachers, the academics and so on who are fighting so hard to see that we do resolve this at the polls. I thank you for that question.

Mr. McCague: On the national potato marketing agency, are you personally familiar with those negotiations?

Ms. Briscoe: I attended the three-day hearings in Mississauga, plus the final three-day summary hearings in Ottawa last July, sir.

Mr. McCague: Is it your understanding that those representing the provinces were ready and willing to go with the quota system?

Ms. Briscoe: It would be unfair to say that. This particular province did not witness, so I cannot speak for the Ontario Ministry of Agriculture and Food in that instance. It neither witnessed in person nor sent in documentation to the hearings.

The majority of provinces chose not to, even those that did produce a significant number of potatoes. If I remember correctly, the Maritimes supported the development of an all-encompassing agency, whereas the western provinces did not.

However, I think if you do not know, you would be interested to know that the Ontario fresh potato growers and the Ontario processed potato growers did something quite unique. They came together for the first time with one presentation asking for orderly marketing supply management for their commodities. That was a first for the Ontario industry.

As I am sure you are aware from what you have read in the paper, what they got was extremely far removed from that. It will possibly have something to do with advertising, a little better look at some type of marketing structure for fresh potatoes; nothing for processed potatoes. Believe you me, as I followed those hearings for that incredible number of days, I saw a focus by the Grocery Products Manufacturers of Canada, by the processors. They followed those hearings across the country. They made an absolute determination of time, dollars and expertise to see that producers were not going to get a national agency. They are determined, by whatever means, this agreement being one part.

Mr. McCague: In fairness, I guess you do not say, "The reason was," but I think within the industry there were a lot of problems that might have meant the result would have been the same had it not been for Mr. Reisman or whomever.

Ms. Briscoe: That would be?

Mr. McCague: The result of the approval that was given on the national agency.

Ms. Briscoe: That is my assessment versus your assessment.

Mr. McCague: Yes.

Ms. Briscoe: Neither of us is wrong but--you know.

Mr. McCague: Neither of us is right.

Ms. Briscoe: That is right. But this is my brief.

Mr. McCague: I do not mind a sawoff like that. On page 3 of your brief--and I guess this is written in a different context--in the second paragraph you say, "US products do not enjoy many of the stabilization and crop insurance programs in effect in Canada." While technically that is right, we are continually told that agricultural products in the USA are much more heavily subsidized than those in Canada, particularly Ontario.

Ms. Briscoe: That is correct. But they choose to go a different route and they are not commodity targeted. They choose to have a much different basis for the rationale of putting the subsidies on in the first place. I truthfully think that most governments in this country are putting subsidies there for the right reasons, hopefully.



Mr. McCague: Is that a case again of "You are right and I am right"?

Ms. Briscoe: In this case, I am right.

Mr. McCague: You are right and I am wrong.

Ms. Briscoe: You said it.

Mr. Pelissero: First of all, I want to thank you for the presentation. It covers a wide spectrum of issues and yet it becomes very specific with quotes. I guess the one I am interested in is your attribution on page 6, Simon Reisman's commenting that full marketing powers for a potato agency would run counter to the spirit of the free trade agreement. Could you source that for me?

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Ms. Briscoe: Yes, I could. A CBC radio Food Show reporter called the National Farmers' Union.

Mr. Pelissero: It is interesting to me that while Mr. Wise has said that supply-managed marketing boards can still be formed, someone such as Mr. Reisman, who is not really directly affected, would be willing to pass a comment, as opposed to the provincial governments, the producers, the processors or the federal government.

Really, the supply-managed marketing boards that we have in place today exist because of the leadership shown, both federally and provincially, by two different governments, one Conservative and one Liberal, because of their perseverance in wanting to see the thing happen. I venture to say that if existing supply-managed marketing boards had to go through the same hoops that we expect ones to be formed to go through, we would not have any in the country of Canada.

This is not a question. This is more a point of information and clarification from the member in short pants to the member in long standing. After phone calls to the Ontario Federation of Agriculture, of which I was president, both to its research department and to its communications department, in fact, the Ontario Federation of Agriculture spearheaded legislation to establish marketing boards, not only in the province, but indeed, in Canada.

While I may have been in either short pants or not-so-short pants, I will stand by my version of history. Maybe there were farmers in Hastings-Peterborough who did not want to come on board, but certainly across the province and across Canada the Ontario Federation of Agriculture--indeed, the Canadian Federation of Agriculture, as well as the National Farmers' Union--were instrumental in spearheading permissive--and I underline the word "permissive"--marketing board legislation. That was more a point of clarification as opposed to a question. I want to thank the witness for allowing that intrusion on her time.

Ms. Briscoe: May I make an interjection, Mr. Chairman, and not on the pants issue? What I would like to say is to reiterate what Harry just finished saying and also to remind you that, as producers particularly of these supply-managed products, we had free trade. That is what was wrong. We had milk from Australia. We had milk from Ireland. We had whole milk from the United States on the supermarket shelves in this province in the early 1960s. The dairy industry and so on and so forth was dying.

Harry is quite right when he says the governments of the day, being the Liberal government in Ottawa and the Conservative government in this province decided, with their best assessment, they made an arbitrary decision that, for instance, the dairy industry was going to survive and they had to do something about it. It was a very arbitrary decision. That became in terms we know today supply management.

Did you notice in Mr. Wise's quote, he always says "monopoly clout?" I wish I was there to debate that particular subject with him.

Mr. Pelissero: I have just one final point. In fact, a vote was taken by, I believe, the feather industry some three years after the boards were established and was passed by, I think, 85 per cent or 87 per cent of the producers who were involved.

Ms. Briscoe: That is correct.

Mr. Chairman: While we are clarifying things, I think we should be careful. I am not sure that it affects your argument at all, but on page 6 you quoted article 710.

Ms. Briscoe: Yes.

Mr. Chairman: I think what you have quoted is the preface which exists in each--

Ms. Briscoe: That is correct. You are right.

Mr. Chairman: It is basically the federal government's interpretation of what--

Ms. Briscoe: My agreement is so dog-eared that I--

Mr. Chairman: Fair enough.

Mr. Morin-Strom: Thank you very much, Ms. Briscoe, for your presentation. I think you have certainly pointed out the serious threat we are faced with in terms of the family farm here in Ontario and across Canada. Related to that particular issue, I would like to ask you about the issue of ownership of farm land in Canada because I have not heard about that from anyone before our committee.

As I understand it, Prince Edward Island has restrictive ownership laws on farm land and I understand Manitoba either does or is potentially moving in that area. Does this agreement affect those kinds of initiatives or the right of Ontario to move in that area to ensure that Canadians own our farm land and that we are not going to see a massive influx of corporate interests from the farm community in the United States moving in and buying up our farm land?

Ms. Briscoe: Mr. Morin-Strom, thank you very much. May I say as well that our concern with the free trade agreement is yes, for the family farm; yes, for the jobs of Canadians; yes, for regional development programs; and yes, for the ability to make decisions as to what land ownership structure you would have within your province.

I would be very amazed if the legislation passed about three years ago in Prince Edward Island, for instance, which puts quite a few restrictions on how much land can be owned by an individual and certainly refers to

nonresident owners, ever happened after an agreement such as this was ever passed, because it certainly is against the spirit of the FTA as we see it.

I think that what you are asking me is one of a great long list of decision-makings which is now within the bailiwick of provinces, and should be there, in concern for its citizens and its industry and so on, which quite likely would be neutralized by great degrees.

Mr. Morin-Strom: Have you looked at all at the national treatment clause and whether that clause implies that the Americans have equal rights to purchase Canadian operations as a Canadian purchaser?

Ms. Briscoe: Absolutely. National treatment is the whole thing.

Mr. Morin-Strom: So it would appear that kind of legislation would be precluded by this.

Ms. Briscoe: Absolutely, that and a number of others we consider traditional in this country. There it is on the hit list, if I may use those terms.

Mr. Morin-Strom: Do you have any idea of what the differences may be in terms of percentages of the farm production which is done by family farming in Canada in comparison to the United States? How pervasive is corporate farming in the US compared to Canada? Do you have an idea?

Ms. Briscoe: Rather than do it on the family farm bit, it is easier for you to get statistics commodity by commodity, because we have some difficulty in terms of what is a family farm versus whatever.

The statistics I gave you on chicken are particularly relevant. That is one of the startling and classic cases of vertical integration. This FTA agreement, definitely in my mind and in the NFU's mind, said, "We'll put Ontario chicken farmers competing with Cargill." That is the where the American chicken farmer, the family farmer, competes--against Cargill.

I think the other brief talked about ghettos in the United States and the acceptance of poverty ghettos. In the last two years, I have done a number of speaking tours in the state of Wisconsin, the dairy state. Even though government has one mindset there, the producers are certainly looking longingly to our system of paying producers and helping consumers at the same time. When we talk about marketing boards, that has enormous inherent benefits for our consumers, and we must talk both ways there.

Remember how much it cost the Americans. The American taxpayers, by the way, pay \$8 billion a year just to deal with the dairy surplus when they go ahead and buy it in the marketplace.

However, I want you to know of a specific case of a young farm family milking 35 registered Holsteins on 100 acres in the state of Wisconsin. With their price per hundredweight depleting each year--it got another 50-cent crackdown--that farm family qualified for hot welfare lunches for their children, and they were doing all the right things. I visited their farm.

Mr. J. B. Nixon: I would like to thank you for your presentation too and advise you that I have no experience whatsoever in farming nor a farming background, so my question may sound simplistic. None the less, on page 9 you



talked about the lower health standards that result from the implementation of the trade agreement. I have also heard reference in other discussions to lower quality standards. For my benefit and for the committee's benefit, could you elaborate on that point?

Ms. Briscoe: Sure. That is important. By the way, the health standards referred to specifically on page 9 are an enormous threat to the breeding herd--the Canadian cattle breeding herd and the Canadian hog breeding herd. It is also a threat to 100 years of research it took us to get there. It puts it to the question when we sell those specific breeding stocks, as we do on my farm, to offshore countries other than the United States. It really jeopardizes our marketplace.

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To go back to what you are saying. Particularly in the area of whether it is milk in a bottle, soup in a can, or whatever, traditionally--and you can check it out--our standards are superior, not only in quality but in ingredient labelling, which Americans do not have as a general rule, where you can see on any can, or whatever you buy, the ingredients and in the order of their content. Bilingual listing, for another thing, will not happen.

There are these safety standards, right to the quality control at our farm, because, after all, for those of us under supply management, when we receive cost of production for our commodity, responsibility is also attached to that. Therefore, our boards, the government itself and the consumers' association, over the 20 years that we have been moving towards that type of marketing system, have been able to put in place quality control standards, strengthening them each and every year to assure the consumer of a quality product, not only at my farm but at the processing end.

I suggest that when you are in the states go and look at an American dairy. It would scare you. The word "rat" is the first thing that comes to your mind.

I am very frightened that Mr. Wise did not even consider what he should have considered in the import control, and that is the whole area of imitation. That is the whole area of nutrition. We could be set up for an influx of American dairy products which will just wash into this country. You have to ask for real cheese in the United States. It is imitation on the shelves. The chemical list that makes that up must be absolutely frightening.

We know their environmental standards are almost a joke because the corporations will not pay what it costs to do it. The American Environmental Review Agency is certainly not anywhere near the control system we have in this country, but if industry does not want to pay for that, that is what happens.

Mr. J. B. Nixon: Are you suggesting that, as a result of the implementation of the trade agreement, it will be a requirement in Ontario, in order to give full force and effect to the agreement, that Ontario lowers its health and quality standards?

Ms. Briscoe: As you go through your agreement, and I am sure you have, there is a great deal of discussion about harmonization of technical standards as it relates to health safety and so on, regulations. What does harmonization mean? It is when two groups sit down and come out looking

something the same. I think you will understand and agree with me that, picturing the American sitting down and the Canadian sitting down, and we come out looking something the same, we are going to look like what the Americans have today.

Industry, particularly Ontario or Canadian-based industries, are going to have to support that because they are not going to remain competitive. If they are forced to put labels on all their cans and the Americans are not on theirs, and this stuff is coming in, it is noncompetitive.

The agreement does not actually say that, but bang, away goes the industry if we do not give in.

Mr. J. B. Nixon: My understanding is that many elements of Ontario and Canadian agriculture do well internationally because it produces a higher quality product. Is that correct?

Ms. Briscoe: Exactly. I think it has been a goal and real challenge to Canadian agriculture to save only its best for its export market. The proof of that pudding has been that we have had the return customer, or the new customer that has come back. I am talking internationally.

I think of Canada number one wheat, which is a much different wheat than American number one, similarly with potatoes. Those give a concrete example.

Mr. J. B. Nixon: I do not want to put words in your mouth, but would you agree with me when I say that it is a bit of a con job when someone says to me that the effect of the trade agreement is to bring me lower prices as a consumer when, in fact, the reason for the lower prices may very well be I am paying less for lower quality goods?

Ms. Briscoe: Yes, you are paying less. You may have less money to pay it with, depending on where you work. Third, the Consumers' Association of Canada is now on its own study, because it is withdrawing more and more from support of it, and is realizing that it is a minimal, actual dollar saving to Canadian consumers, almost ridiculously small. The models that have been used by the federal government to promote that are strange.

Mr. J. B. Nixon: So basically we are paying slightly lower prices for lower-quality goods?

Ms. Briscoe: That is right.

Mr. Neumann: Quoting from the International Trade Reporter, January 1988, it says, "The United States has threatened to retaliate against the European Community if it proceeds with plans to impose a ban on the import or sale of hormone-enhanced meat."

Ms. Briscoe: Yes.

Mr. Neumann: If Canada or Ontario decided in the future to set up a similar kind of control or regulation to protect quality or health, do you feel this agreement would prevent us from doing that, or is there anything in the agreement which would prohibit this kind of retaliation you are talking about with respect to the European Community?

Ms. Briscoe: The short answer and the most certain answer I can give you is there is nothing to stop retaliatory action by the Americans. You can go ahead and set up whatever you like, but the retaliation is an open book. They can do whatever they like. Whether or not you will have the ability to set it up is another discussion altogether, and I have some grave doubts about that. I think if you put it in place, you are going to find all kinds of retaliatory actions. The agreement does not prevent that type of retaliation. The countervail that is on hogs today will be on the day after that agreement is signed and 10 days and 10 years after. That is not going to change, no matter what the Ontario Pork Producers' Marketing Board is telling you.

Mr. Chairman: Thank you very much. I did see Mr. Haggerty's hand, but I hesitate because time is very short.

Mr. Haggerty: Just the one short question.

Mr. Chairman: Not a conjunctive sentence, though, Mr. Haggerty.

Mr. Haggerty: This deals with a comment in the brief, the mention of the present bringing in of poultry products from the United States and changing the label on them. We should be looking at one of the safeguards. We are concerned about the health of the consumer here in Ontario and Canada, and maybe we should have a labelling that says you have to identify the place of origin of the product.

Ms. Briscoe: Yes. That has a two-pronged problem too, and we will talk about that later, but it is true.

The other thing I wanted to talk about with you was referred to in the last brief--and I think it was sort of important--but did not get said. When all this cheap American chicken comes in, I think the cattlemen better wake up because this agreement encourages Canadian consumers to buy cheap American chicken instead of good Canadian beef.

Mr. Haggerty: Tell that to the Canadian cattlemen.

Mr. Chairman: I believe Mr. Morin-Strom said it was a very powerful presentation you made and I think it got more powerful as it went on. It also complemented the Christian Farmers Federation of Ontario brief and it complemented yours. We appreciate very much your coming before us today and presenting your views to us. You have given even those of us who are urban a new perspective on the issue.

Ms. Briscoe: Thank you very much, Mr. Chairman. I was urban up until about 20 years ago too, so you can really get to be a semi-expert, believe it or not.

Mr. Chairman: The next group is a group of farmers that have come to us from the Watford area in southwestern Ontario. We particularly appreciate this group because it is not an organization per se, but rather an organization that has, as I understand it, put itself together particularly for its submission to us today, initially as a result of our advertising. Is that not correct, Mr. Ferguson?

Mr. Ferguson: Yes, it is.



Mr. Chairman: Initially, I had thought perhaps we might do some travelling, but it turned out the committee decided not to. I particularly appreciate that all of you have taken, I am sure, the full day off to come here and to prepare to deal with this matter. I see you have done so in a manner which delineates various sectors of farming.

We have Ralph Ferguson from Lambton county. I understand you will be giving the opening statement, and then the other members of your group will speak: Jack Johnson, a dairy farmer from Middlesex county, Rick McCracken, a poultry farmer from Middlesex, Earle Muir, a grape farmer from St. David's, David Alderman, a wheat farmer from Lambton county, and Joe Szentimrey from Brant county.

Starting with Mr. Ferguson, perhaps you can direct the rest of the members of your group as to their presentations. Hopefully, we can follow up with some questions.

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RALPH FERGUSON, JOHN JOHNSON, RICK MCCRACKEN,  
EARLE MUIR, DAVID ALDERMAN, JOSEPH SZENTIMREY

Mr. Ferguson: I want to express my appreciation to this committee for holding the hearings and giving us an opportunity to appear before you today to speak about our fears of what is happening in this free trade deal.

When I first thought about putting in a brief, and Mr. Johnson and Mr. Alderman had contacted me asking, "What can we do?" I felt perhaps we should start out with an overall viewpoint not only of how it is affecting the agricultural industry but all of those of us who live in rural Ontario and rural Canada.

Mr. Alderman and Mr. McCracken, Joseph Szentimrey and Mr. Muir also prepared some supplementary briefs on the particular areas they represent, but they are very brief. So after I finish, they will give their own comments.

I want to make it clear at the beginning that we are not at all opposed to expanding our trade with other nations, but we must expand it in a way that does not erode the sovereign rights of this nation; expanding our trade on a multilateral basis in a way that our Canadian agricultural marketing systems, which are the most sophisticated in the world, are not gutted, and expanding it in a way that the quality of life in Canada is not drawn down to the level of some other regions of North America, with the ghettos and the extremely low wages.

One of our prime concerns is the fact that this deal goes much further than just a free trade deal. As I indicated a moment ago, our marketing systems have been gutted--the winter wheat marketing board of Ontario is one example--or they have been placed in the position where the uncontrolled surpluses from other nations will have access to Canadian markets and will in turn replace Canadian products produced under a system of planned production. This will require increased levies for surplus removal within Canada and will eventually lead to a downward adjustment of production targets.

Our systems of planned production here in Canada are the envy of the world. We do not have huge stockpiles of surplus product, as does the European common market or the United States. Our farmers operating under these systems have not suffered as much as farmers who are outside these systems from the

downturn in the farm economy over the last four years. These systems have price stability and a return on labour and investment to the producers, with no cost to the treasuries of either the federal or provincial governments.

Of further concern to us is the fact that our system of social programs may be eroded in the long term. The Canadian safety net that provides medical care, unemployment insurance, Canada pension plan and old age security is one of the best in the world. We believe it will be destroyed much more quickly than anyone realizes.

The American health care system is based not on compassion and need but on the profit motive, with huge corporations owning and operating hospitals, nursing homes and other health care facilities. For example, the Hospital Corp. of America, based in Nashville, Tennessee, employs over 80,000 people and has an annual income of more than \$4 billion. This is not the type of health care that Canadians can accept or afford and would certainly seriously erode the quality of life in Canada.

When the European common market was formed, a determined effort was made to ensure that social networks and wages started off from a relative base.

This trade deal has resulted in a massive giveaway of our nonrenewable resources. The United States now has its continental energy package, and the Canadian government has given up our sovereign rights as a nation to base our exports on the needs of Canadians first. We have given up our right to price our energy to Canadians at a different price than we sell to the United States, in spite of the fact the US climate is not as severe as ours in Canada and the energy requirements of the average home owner are not as high as here in Canada.

The powers of Canada's National Energy Board have been given away, while the powers of the US Federal Energy Regulatory Commission remain intact.

Our Canadian competitive edge, as owners of these resources, whether owned by the provinces or the people of Canada, whether within a province or on Canada lands, will be lost for ever.

This trade deal has eroded the sovereign powers of this nation to an extent that we must question our future ability to survive as a nation and as an independent country. In fact, can we really look at ourselves as a truly sovereign nation if we cannot retain our rights to manage our resources to the benefit of Canadians?

We have lost our two-price wheat system. We have seen the erosion of the underpinnings of our marketing systems and, as the Ontario Grape Growers' Marketing Board stated on November 10, 1987, they are closing the door on 200 years of productive farming.

There are only two areas of Canada that have the unique combination of climate and soil suitable for tender fruit and grapes: the Okanagan Valley in British Columbia and the Niagara Peninsula in Ontario. This loss will be irreversible and Canada will never again have the capability of producing these specialized crops for Ontario or Canadian consumers.

Our Canadian farmers have served this nation well and we object in the strongest possible terms to this massive giveaway for access to markets in the United States that may or may not be available to us, for example, because of nontariff barriers, the Canadian dollar increasing in value to par with that

of the United States or even higher, or lower wage rates in the southern United States.

Our access to those markets will also be determined by the application of United States trade remedy law as applied and administered by US courts. It is only after the US courts have made a ruling regarding Canadian imports to the United States that the dispute settling mechanism of the trade agreement can act and then they can only determine if US law was properly applied. The United States gave up nothing in this deal.

We commend the Ontario Beef Producers for Change for their support of the position taken by the government of this province on this trade deal. We, in effect, had almost free trade in the past for cattle and beef. Now one has only to look around us in Ontario to see that the Ontario beef industry is in very serious trouble.

I suggest to you that two thirds of the beef feedlots in Lambton country and about half of those in Middlesex are either in financial difficulty or are sitting empty. In 1986, Ontario beef production dropped by about six per cent and we have a deficit of over \$100 million in beef production in Ontario at the present time. By contrast, the number of cattle on feed in the United States is up by about eight per cent.

We simply cannot compete with other countries that have more moderate climates, where herds can be pastured for longer periods of the year than here in Canada. Nor can we have the economies of scale available in the sizes of feedlots that they have in the more arid climates of the midwestern and southern United States. For example, the Cactus Cattle Co. of Dumas, Texas, has 320,000 head of cattle on feed. Just think of the environmental consequences of such an operation here in Ontario.

In fact, do we want the huge corporate farms in Canada and Ontario that they have in the United States? The Los Angeles Times Mirror Corp. owns the Boswell Corp. which farms 155,000 acres; Southern Pacific Railway, 120,000 acres; Teneco Corp, 115,000 acres; Standard Oil, 30,000 acres; Getty Oil, 30,000 acres and Irvine Ranch, 88,000 acres. The McLean Trucking Co. owns 83,000 acres of land in North Carolina and the Prudential Insurance Co. 750,000 acres in 16 states.

Coca-Cola, through its Minute Maid subsidiary, owns 85,000 acres of Florida orange groves and more in California, and the previous witness indicated that Cargill has 13 million laying hens in the United States. In all of Ontario, in total, we have 7.5 million laying hens providing eggs for this province.

Is this corporate-controlled system of food production such as that in the United States what we want in Ontario and Canada? No. The Canadian system is the best in the world and our standards are among the highest. The current move towards the harmonization of regulations between Canada and the United States can only result in the lowering of our grades and standards that have won Canada a reputation for quality products, particularly in grains, from buyers around the world.

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Our Canadian systems have been built through the unswerving leadership of producer organizations, whether it was the grape producers, the dairy farmers or others.



The Canadian milk producers have, beyond question, the best system of planned production in the world, a world that is plagued by surpluses and huge inventories in storage.

The United States produces more surplus dairy product than we produce in total in all of Canada. Their industry is in a state of chaos. We do not need that here.

We accept the fact that several dairy products have been added to the import control list, but respectfully suggest to you that the Canadian government position in the current round of GATT negotiations places all of our marketing boards in Canada in jeopardy, dairy included.

The United States trade remedy laws are still intact and still apply to Canada. We may or may not have access to their markets. We have no guarantees. We have given away our sovereignty, our social safety nets are in jeopardy, and we have become an energy reservoir for North America.

One of the most sophisticated producer marketing systems in the world is having its underpinnings chipped away and is being further eroded if the positions of the United States and the Cairns group of countries are accepted. Incidentally, Canada supports the Cairns group.

Finally, we ask that this committee use all of the powers at its disposal to support the position of the Ontario government as it relates to this trade deal. As Canadians, we feel betrayed by the government of this country, which has completely ignored the democratic process and recommendations of the House of Commons committee which went across the country holding public hearings--public hearings, incidentally, that were held before the final text of the agreement was available to the people of Canada. This trade deal was tabled before the committee report was tabled in the House of Commons. We were asked to buy a pig in a poke.

As Canadians in a democratic country, we thank you for your attention and ask you for your support.

I would like to refer now to Mr. Muir, a grape grower from the Niagara Peninsula, for a few added comments.

Mr. Muir: The concern that I would express today is that of the majority of grape and tender fruit growers in Ontario, and I grow all those crops. I grow peaches, pears, grapes, plums and cherries.

We have been subjected to much written material and we have listened to many words from platforms, but we are no better informed now than we were when our federal government made the first announcements and our fears are of the unknowns that await us in the future.

Mr. Chairman: I am wondering if you could sit closer to a microphone so we can pick you up, Mr. Muir. Maybe you could sit next to Mr. McCague here. We will not assume you are partisan by doing that.

Do you have any copies of your text?

Mr. Muir: Unfortunately, I have only the one copy.

Mr. Chairman: Fair enough. Go ahead.

Mr. Muir: Do you want me to repeat or just carry on?

Mr. Chairman: Carry on from where you were.

Mr. Muir: Mr. Mulroney and his fellows would have us put our future in their hands to work out an agreement favouring Canada, and I am as sure as can be that the US people are saying the same thing, favouring their country.

It is difficult to have assurances that all will work out well when our wine industry is put on hold to the extent that it is not allowed to open any further retail stores for its own products in its own country or to plan expansion of its industry.

As a grape grower who plants a crop in rotations of at least 15 years, this impacts on me to make future plans. The severe restrictions of the grape and wine future in Ontario make no sense to growers, who have provided much income through taxes to both levels of government, and we have made and are making dynamic changes in varieties to produce top-quality products for Canada.

Of course, a further confusing situation is that we do not have a free trade agreement between provinces, and yet we are embarking on such an agreement with a foreign country.

There is a fantastic lack of common sense in the vague outlines from Ottawa concerning our grape and wine future in Canada. Add to that the puzzle of why our politicians have such negative feeling for Canadian product versus foreign. The example, of course, from a grape grower is that in world-class competitions the top wine was Canadian, yet our Houses of Parliament refuse to serve Canadian wine only and our nationally supported airlines carry a token amount of Canadian product.

For the tender fruit producers, I would remind you of the disaster that befell our sour cherry growers of Ontario in 1987. This would seem to us to be the first example of what free trade will mean. In 1987 the Ontario growers sold only two thirds of their crop at 18 cents per pound, compared to 42 cents per pound the year before.

Most of Canada's tender fruit production is in such close proximity to the US border that many growers attend production oriented meetings on both sides of that border. It is clearly evident that producers of those crops referred to as tender fruits--which are peaches, pears, cherries and plums--in the northern states are having great difficulty to stay in the business against their southern cousins, with whom they have always had free trade.

Here in Canada we are at even greater disadvantages as our season is even later and we have higher production costs because because of the social schemes that we, as Canadians, do enjoy. Examples here were outlined by Mr. Ferguson: minimum wage laws, unemployment insurance and workers' compensation funds. We also have restricted chemical uses in production. We have higher fuel costs. In fact, almost every input cost is higher in Canada, and the free trade agreement is not going to change that fact.

We are constantly told that we need access to the great US market, but in our industry we are already a major importer of US products.

The synopsis of the free trade agreement as published by the Department of External Affairs does nothing to alleviate my concerns that the US needs Canadian resources far more than Canadians need to give away those resources

to gain more stable markets. Add to that the fact that the Canadian consumers of our products have enjoyed lower prices as our commodities come into season. Without domestic production, the safety valve is lost and importers of fruit can set prices for the entire year if we disappear.

This depressingly negative feeling has not helped when even our Ontario government announced in January that the main losers in this agreement would be the fruit and vegetable growers of the province and offered no words of encouragement in that release.

Perhaps if our land is not wanted for food production, it can become the site for bedroom communities for the great industries that are to trade with the United States, but that decision must be made very soon for a person in my situation.

Mr. Chairman: Thank you very much.

Mr. Ferguson: Mr. Alderman will go first; then we will go right down the line.

Mr. Alderman: In the case of Ontario wheat there are serious implications associated with free trade, not only for the board structure but for the commodity and its producers.

From the standpoint of being able to produce competitively, there is little advantage US over Canada except for some chemicals, fuels, fertilizer and equipment. Given the equal return per acre, Ontario can hold its own. But the US producer receives about C\$6 for his wheat, which is about \$4 more than he exports that same wheat for. The Ontario producer will receive about \$4.25 for his wheat, with the two-price wheat policy, stabilization and special Canadian grains that we have now.

The import controls administered by the Canadian Wheat Board have saved Ontario wheat production from extinction in recent years. Many milling companies in the US are not running at capacity. Under free trade, their Canadian subsidiaries would no longer be required. Eighteen of the 22 flour mills in Ontario are American-owned.

One must seriously question the idea of abolishing the two-price wheat policy on the argument that product costs would automatically reduce to benefit the domestic consumers. The value of wheat in solid cookies which are 50 per cent flour is only two and a half per cent of the total cost of that box of cookies to the consumer. In cereals made from 100 per cent flour, the wheat is only four and a half per cent of the total value of that box of cereal. These values are based on the \$7 price that we now have for domestic wheat.

Domestic wheat was raised \$30 a ton between 1985 and 1986, or 13 per cent. Product prices immediately rose, the cookies 15.4 per cent and the cereal 19.6 per cent. And as I stated before, there was only two and a half per cent in the cookies and four and a half per cent in the cereal to start with.

I thank you for this opportunity to appear before you and will try to answer any questions that will be directed to me.

Mr. McCracken: Thank you for the opportunity to make this presentation today and talk on free trade and the poultry industry.



Under the free trade agreement, the supply management system appears to be maintained for the poultry industry. However, the increase in global import quotas and reduction in import tariffs will weaken many of the underpinnings necessary to a supply management system. Supplementary import quotas will continue to be required at approximately the same level as in the past, increasing imports above the last five-year average and therefore above the increased global import quotas.

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Elimination of tariffs would increase the cost of surplus removal programs. Tariff-free imports of further-processed poultry products will reduce markets for Canadian-produced poultry products, as well as harm the processing industries in Canada.

The Canadian Egg Marketing Agency, CEMA, should be the sole importer of eggs into Canada to keep supplementary import quotas to a minimum so that all Canadians can share in any windfall profits from imported eggs.

Surplus removal levies need to be increased to reflect the higher cost of operation due to the lowering of tariffs. Further-processed poultry products should be included on an import control list to protect both the producers and processors.

While the free trade agreement does not remove the supply management system from the poultry industry, it does chip away at the underpinnings necessary for the continued health of this strong industry.

Mr. Szentimrey: Many Ontario cattlemen oppose free trade. The Ontario Beef Producers For Change, with a membership of more than 2,700 producers, is officially opposed to the present concept of free trade recently negotiated between Canada and the United States.

While all kinds of assurances are given by our Canadian government, many present US agricultural trade laws and practices still seem to be in place. While Ontario producers have had virtual free trade for many years, the industry has been devastated by this, even with the 75- and 78-cent dollar. The dollar is now rising and predicted to go higher. The once thriving beef industry has been almost totally reduced to individuals struggling to make ends meet with off-farm jobs or other sources of income.

Ontario producers are subject to unfair competition in various ways: subsidization of feed grains in the US, as well as subsidization of cattle and feed by neighbouring provinces; competition from US beef producers with US tax shelter dollars; and competition with US beef animals produced in higher heat unit areas which require less feed and housing to maintain body temperature, give greater crop yields for the same or cheaper input cost and, in the far south, produce year-round growing conditions.

The tremendous American market which free trade supporters loudly proclaim as being there for our exploitation becomes a pie-in-the-sky mirage. Tied to the American prices, as we have been in the past and will be in the free trade situation, there is nothing to indicate profitability in the foreseeable future for beef production in Canada.

According to Statistics Canada, the great export advantages touted by some enthusiasts just do not exist. Canada is in an import surplus situation both in world trade and in the US in respect to beef. Only the export trade to

the US in live animals, purebreds, cows and feeders tips the balance to an export surplus with the US. Ontario and Canada are in a very definite import surplus situation in both beef and total cattle.

This free trade deal might ultimately prevent us from developing a market system which would make beef production profitable, so that we might export profitably. We could then be encouraged to supply our own domestic market. Then we might export if it were to our advantage.

The Ontario Beef Producers For Change appreciates Premier Peterson's stand with respect to free trade and certainly shares his concern as to the benefits to be gained. Like many other people, we are not opposed to the principle of fair trade with the US or any other country, but there should be some assurance that we can be viable in the process.

Mr. Ferguson: We had another very short appendix by Tony Csinos, past president of the Canadian Horticultural Council. Tony is not able to be with us today because of another commitment. I wonder if I could leave this with the clerk and include it as if it was read so that we do not impinge upon the question time of the others.

Mr. Chairman: Certainly. Would you like to read it into the record just so that those who are reading the transcript and do not get all the exhibits might have a chance to look at it too?

Mr. Ferguson: This is by Tony Csinos, past-president of the Canadian Horticultural Council, for rural Ontario.

He says: "In addition, there are some conditions in this free trade agreement that should be of major concern to Canadians. Under this agreement, food production will be, in effect, capped and we will lose the right to self-sufficiency in those horticultural crops that we can produce in Canada.

"The other area of concern is the harmonization of all our standards with the United States. The area I refer to is the Canada Agricultural Products Standards Act. Under this act, we have protection from the United States as well as other foreign countries. This prohibits the importation of horticultural commodities, both fresh and processed, that do not meet the standards as set out in the CAPS Act.

"We are talking here about the high Canadian standards. Examples are: processing standards designed to give Canadians protection from unfair or substandard regulations in other countries, container standards and pesticides standards, where Canada now maintains a high standard of protection for its citizens through this regulation. However, with the trade agreement, those standards too will have to be harmonized to the detriment of Canadians.

"It is under the CAPS Act that the industry has protection. It is also this act that the United States deems to be full of nontariff barriers, which will be eliminated under harmonization. If we lose those protections through the free trade agreement, Canada will become subservient to the United States.

"This is a strong statement to make. However, when you compare our horticultural production with that of the United States, we are, in effect, no more than a cottage industry and therefore will not be able to compete with the United States's climatic conditions, and the economic investment required simply puts Canada out of the so-called free market area.

"Sections 56 and 57 of the Fruit, Vegetables and Honey Act: This regulation was put in force during the early 1940s to protect the fruit and vegetable producers of this country from product entering Canada on an unsold basis or a commission basis. This act is not being enforced at this time by the government and, though there has been a promise by them to reinstate it, nothing has been or is being done to do so. This act is considered to be a nontariff barrier from Canada's standpoint.

"Respectfully submitted by Tony Csinos, past-president of the Canadian Horticultural Council."

Mr. Chairman: First, when we disperse here, in addition to your own comments, Mr. Ferguson, perhaps Mr. Carrozza could borrow the documents and we could distribute them as well, because sometimes members get to read those a little more often than they do transcripts.

Mr. Ferguson: Sure.

Mr. Chairman: Second, we have some questions here, and perhaps you can police the questioning as to whom it should go, unless it is obvious that it should go to one particular industry. Mr. Nixon, Mr. Mackenzie and Mr. Pelissero.

Mr. J. B. Nixon: Gentlemen, I would like to thank you for appearing as you have. I think it adds some power to your position when you appear, as you do, voluntarily as individuals. I commend you and thank you.

I would just like to say, editorially, that as you were making your presentation I was thinking back to the days when I was in short pants--when Leslie Frost was Premier--and studying the counties of Ontario and getting a sense of Ontario as a wonderful place to be, as a bounteous place. Agriculture was an integral part of our society and, even though I was a city kid, there was a sense of security that came from that and a sense of richness in this province. I, quite honestly, am very saddened and troubled. I never thought I would be here listening to a presentation such as yours. It does disturb me greatly.

Having made that editorial comment, I do have a very specific question, though, and that relates, Mr. Ferguson, to your presentation at the bottom of page 7 and page 8. Could you, for our benefit, elaborate on the position that the Canadian government is taking on the current GATT negotiations? I am not entirely familiar with it.

Also, who the Cairns group of countries is and how their position coincides with the Canadian position, and the impact of that position being taken?

Mr. Ferguson: Yes, thank you, Mr. Nixon. With your permission maybe I should go back a wee bit further. Section 703 of this free trade text states that they will work towards removal of all existing import restrictions.

Section 710, I believe, relates to section 11 of the GATT, where the marketing boards derive their powers, whereby if a country has a system of planned production within that country, the same regulations apply to imports as apply to its own producers. For example, in our egg boards, the quotas are based on the previous five years' production, and the imports of the other countries are based on the same thing. That was challenged by the United States, upheld by GATT and that has set a precedent for us.



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However, under the United States position paper tabled in the GATT at the Uruguay round of negotiations, one of things they want to do is remove all import barriers. Under the Canadian position paper, they do not say that, but they say they support the Cairns group. In total, their thinking is along the lines of the Cairns group and supports its proposals.

The Cairns group is a group of 14 countries, including Australia, Argentina, Brazil, Canada, not the United States; Uruguay is another one. There are 14 of them. Part of their position is that they will work towards opening up the borders and removing import restrictions to their markets. So Canada supports the position of the Cairns group and automatically must be working towards the removal of import barriers.

I should point out that I believe Mr. Reisman is now negotiating for Canada on behalf of GATT. So when the Americans made the comment, "What we did not get in the free trade deal, we will get through GATT," I am afraid there is some truth in the statement.

Mr. J. B. Nixon: Second question: You were present when the National Farmers' Union was here and I asked a question, to characterize it, about harmonization of quality in health standards. Does GATT deal with that at all? Would harmonization of quality in health standards be implicit in the removal of import quotas and import barriers? Would there be that same type of technical detail?

Mr. Ferguson: I have not seen that type of technical detail. They are more or less dealing with the removal of import barriers and subsidies, trying to work out a system where they do not have the same subsidies.

Mr. J. B. Nixon: Would your comments differ from the National Farmers' Union in respect of the harmonization of quality in health standards and the effect on Canadian agriculture, or would you care to elaborate?

Mr. Ferguson: They are quite correct, and Tony Csinos is quite correct in his concerns here as well.

Mr. Mackenzie: I have just two questions. First, I was intrigued by the comments that the gentleman from the Ontario Beef Producers For Change made that there is opposition to the free trade deal from some of the cattle producers. Certainly the National Farmers' Union, the Ontario Federation of Agriculture and the Christian Farmers Federation of Ontario have all indicated their concerns, and you people have as well, but the perception or the mythology out there is that the red meat producers are not on side on this issue, whether it is cattle or pork producers.

I take it then that is not a firm position of all of them. There are some who see some of the dangers or who do not agree. Is it even a majority opinion that they are supportive of the free trade agreement?

Mr. Szentimrey: The statement by the leaders of the Ontario Cattlemen's Association and Canadian Cattlemen's Association was made without actually questioning their membership.

Interjection.

Mr. Szentimrey: We had free trade in cattle, and for the 30 years

that I was feeding cattle I would have welcomed a higher tariff in Canada most of the time, rather than a lower one, because whenever our prices got to where I liked them, in came the flood of US cattle. Our experience at the farm level was always negative; that is, we were too free already.

Mr. Mackenzie: So there obviously is some opposition within this group as well, in spite of, as I say, what seems to have been up until now the conventional wisdom in terms of the various farm groups.

Mr. Szentimrey: Yes.

Mr. Mackenzie: The other question is the same one I have asked the last three or four groups. I am not sure you have discussed this among yourselves. Is there is an obligation on the part of this government--that is one of the things this committee is supposed to be looking at--to be firm in the statements it has made to date and to be even tougher and to hold those positions as we get down to the crunch?

Second, do you feel it is an issue that should involve an election before we in this country are tied in totally to this free trade agreement?

Mr. Ferguson: I would be pleased to answer that. Yes, we think the government should take a very hard line on this, not only because of the studies done by the Ministry of Agriculture and Food, which showed it is going to cost the agricultural industry \$100 million a year. It is going to be far worse than that because a spinoff from a resource such as agriculture has a multiplier effect of four or five at least, at a minimum. The overall impact is going to be much greater than the \$100 million identified.

I think there has to be a very strong position taken here. Canada was built not on a north-south relationship but an east-west one. We had to overcome the great Canadian Shield. That is why the west did not develop as fast. As a Canadian, I feel very strongly about what has happened to our energy in the Canada lands, the Northwest Territories, the Yukon and the offshores.

I have two issues here of Oilweek magazine, one of June 1, 1987, which stated that the conventional oil in Alberta will last 12 years. This does not include the tar sands. At the present time, Canada is the number one exporter of oil to the United States. If you look at the agreement and see what it says under energy and compare it with the United States document of October 4, we have real cause for concern as Canadians, whether we live in the east or the west and whether we farm or live in the urban centres.

Mr. Mackenzie: And the issue of whether this should be put to the Canadian people nationally?

Mr. Ferguson: I think it should, but who am I to judge?

Mr. Szentimrey: Can you hold up progress on it long enough that it will? Since elections are not delayed for ever, can it be tied up and eventually we will have that?

Mr. Mackenzie: No, I guess it is as much a moral argument as anything else, as so many of them are, but the agreement will not go into place until--what is it?

Mr. Chairman: January 1, 1989.

Mr. Mackenzie: I do not think it will be through the US system until the fall. Most of us--that is an incorrect comment; many of us feel that this should be the basis of a federal election before it is finalized at both levels and before the provinces have been tied in totally. Whether that happens or not, I do not know, but certainly they are going to have to go by the fall of next year. That may be a little late. I would much rather see an election before we are entered into it than after. It may be too late even at that stage.

Mr. Pelissero: First of all, thank you for taking time to appear before us today. For the committee's benefit, I will not ask the individuals who are sitting there, but they are not just a group of farmers from Watford. Given the number of years of practical farming experience, as well as organizational and political contributions to the agricultural producers of not only Ontario but also Canada, they speak with a certain amount of authority and we should consider their submission very seriously.

They certainly do not look like the typical farmer that the federal government happens to be pushing on its brochure in terms of the large gentleman with the baseball cap and the jeans. That still bothers me. It gets under my skin every time I think about it, but that is a separate windmill issue that I will take a crack at at some point in time.

The question I have asked most of the groups that have appeared before us is, would you comment on the value of the Canadian versus the American dollar, should it ever go back close to par or--some people would say "God forbid"--we have a higher Canadian than American dollar? Would anybody want to try to do it by commodity, or if somebody just wants to make a general comment in terms of a 95-cent or \$1-dollar versus the US dollar?

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Mr. Ferguson: Yes, if the Canadian dollar went up to par with the US dollar, a good many of our markets that we have there now would disappear, and I am relating to pork. We would not only still face the \$10 hog countervail that is there now, but we would also lose our competitive edge, along with what we lose through the nondiscriminatory pricing of energy. We cannot charge them a different price than we charge ourselves, even though it is a much harsher climate here in Canada.

But it goes beyond that. We would lose our edge if the dollar came up to par, and I believe it will, because Canada has a resource-based economy. The United States economy is not resource-based. In fact, the industrial heartland of the United States has problems. The new plants are being built in the southern area of the United States, Mississippi and the southern states, where the labour rates and the labour laws are not as stringent as they are in the northern states--\$6 or \$7 an hour. How can our people compete with that? There are over 1,000 new plants in the northern edge of Mexico in a duty-free zone just across the Mexican border, with 300,000 workers at 65 cents an hour. What happens to us when we start competing against that kind of production?

Consequently, yes, the Canadian dollar may come up to par, and I believe it will. It is just a matter of time, unless there is intervention by the Bank of Canada to hold it there for a specific reason. If it does go up, we are going to be sliding back from the amount of exports we can send down, as well as when we hit the goods produced by the lower-cost labour of the southern states. But I would not want to wish those living conditions on any Canadian.



Mr. Chairman: Just a brief supplementary to Mr. Szentimrey. In answer to Mr. Mackenzie's question, you indicated that there was a lack of consultation before your organization indicated its support or the red meat producers indicated their support. Do you wish to expand on that at all? Do you find that there is, say, in Bruce county a lot of opposition to the agreement?

Mr. Szentimrey: Among our membership there is opposition to the free trade agreement, but any position on free trade has never been really debated at the Ontario Cattlemen's Association annual meetings or through its county meetings. All of a sudden, out of the blue comes an official report that all of us are in agreement with free trade.

From our point of view, the other disturbing condition that popped up was the fact that, all of a sudden, we were not talking about beef and pork, but we were talking about red meat, and the red meat industry is going to benefit to the tune of \$18 million from this free trade agreement. The pork sector may do so; it may even benefit more. But if the beef sector was looked at separately, certainly I do not see that kind of benefit. I do not see any benefit.

Some good lobbying took place in the background. First, a statement came out. The next thing was that for the first time in my memory, all of a sudden, we are talking about red meat, not beef and pork.

Mr. Chairman: The packers seem to be fairly happy about that.

Mr. Szentimrey: They may be. If you look at the Ontario industry, the packers have had good relations with the US. For example, if you recall back when President Nixon had price control in the US, we were slaughtering US cattle in Canada and exporting beef to New York in very large volumes. This was good activity for the Ontario packers until the news media got really excited and thought we would run out of beef. Our border got closed not only to exporting our beef but processing US cattle and shipping to the US.

So the packers tend to benefit more because they are not tied down. The beef industry is basically land-based and as farmers we have to work close to our land. The packers do not have that restriction; they can buy cattle from the United States or from the west and fill our market. It is actually very difficult to get statistics on the cattle business because we get figures that say our kill is up and we think these are all Canadian or Ontario cattle, and that may not be the case at all. If you want to establish that we are actually net importers of beef, and we have been over the years, it is very difficult to do.

Mr. Chairman: Maybe I am being simplistic again, but my background also is urban. Would you not be a little relieved that the opportunities to close the border might be lessened with harmonized standards of health care, etc.? I see Mr. Pelissero shaking his head no. I guess that is the answer.

Mr. Pelissero: I will talk to him later.

Mr. Chairman: All right. He will tell me.

Mr. Szentimrey: We have problems. It appears to me that the objective of the Canadian Cattlemen's Association is to support the western aspirations that cattle be sent to California and that in return we should accept feeder cattle and fat cattle from the US.

A discussion has taken place on the blue tongue problem, which the US considers a nontariff barrier. We are prepared now to import cattle without 30-day quarantines, without testing. This may be detrimental to the future of our purebred people who are exporting semen and breeders. I do not think it is in the best interests of Canada as a whole and it certainly is not in the best interests of Ontario.

If the western people do not want to participate in the Ontario market, because this is where the beef is consumed, then let us produce these calves in Ontario. Let us not import the cattle from the US, because they are not as good from a genetic point of view as our western supply was, and let us help the Ontario cow-calf producer produce more calves here.

Mr. Alderman: May I make one comment to Mr. Nixon's question on the standards. Wheat here that goes into the domestic market that we get the so-called good dollar for has to be number 1 wheat and it has to have zero tolerance for insects. Wheat in the US can have three parts per million animal parts in the flour. Do we want our cookies and our bread made out of US flour or do we want to keep our Canadian flour?

Mr. J. B. Nixon: That is a good point.

Mr. Chairman: The presentation has been very helpful, not only in the content but also in the way you have organized it so that it defines the sectors for us and helps us to understand it much better. The content was also extremely powerful, I might say, and complemented the two other presentations we had this afternoon. The sense of unanimity seems to be a bit overwhelming.

I am reminded of the fact that when we were looking at the prospects of an agreement, the agricultural sector on both sides of the border seemed to have a lot of concerns. The only really keen parts of the sector were the administrations from the two federal governments. That may be why we have an agreement. You have given us a lot to consider. Thank you very much.

Mr. Ferguson: Thank you for the opportunity. We appreciate it.

Mr. Chairman: That concludes our presentations today. We will be continuing our presentations tomorrow, although the television coverage of this committee is concluded for this week. Tomorrow, the television coverage will be of the select committee on constitutional reform, which is considering presentations concerning the Meech Lake accord.

If you are interested in the activities of the standing committee on finance and economic affairs of the provincial Legislature, and that is the committee you have been watching, I invite you to come and join us tomorrow in committee room 1 at the Legislature at 10 a.m., when Dr. Richard Lipsey from the C. D. Howe Institute will be making a presentation. Dr. Lipsey, a former professor at Queen's University, was one of the original proponents of the agreement and, I believe, is still a supporter of it. He will be followed at 2 p.m. by Keith Hyde; at 3 p.m. by the Social Planning Council of Newcastle, Oshawa and Whitby, with Donald Warne as the spokesperson; and at 4 p.m. by the Ontario Grape Growers' Marketing Board, with Brian Nash, the chairman.

On Thursday, also in committee room 1, we will be hearing from Professor John Crispo of the University of Toronto at 10 a.m.; at 11 a.m. the Ontario Public Service Employees' Union, with James Clancy; at 2 p.m. the Ontario Forest Industries Association, with Ian Bird; at 3 p.m. the International Association of Machinists and Aerospace Workers; and at 4 p.m. the Canadian Environmental Law Association, with Michelle Swenarchuk.

The purpose of these hearings is to report to the Ontario Legislature, after an in-depth résumé of the free trade agreement, as to what tack the province should take. The finance committee's mandate includes a specific request from the Legislature to report to it. The mandate is, in general, to consider and report to the House our observations, opinions and recommendations on the fiscal and economic policies of the province.

If you are interested in the work of this committee and you would like to see more of it, I invite you to phone or write to one of the three party House leaders: the Honourable Sean Conway, the Liberal House leader, at room 193, Queen's Park, Toronto, M7A 1A2; David Cooke, the New Democratic Party House leader, room 211, Queen's Park, Toronto, M7A 1A2; or Mike Harris, the Progressive Conservative House leader, room 160, Queen's Park, Toronto, M7A 1A2. Mr. Conway's phone number is area code 416, 965-4002, or in Pembroke, area code 613, 735-6627. Mr. Cooke's phone number in Toronto is area code 416, 965-3686; in Windsor, area code 519, 944-4343. Mr. Harris's phone number in Toronto is area code 416, 965-5365, and in North Bay it is area code 705, 474-8340.

The committee adjourned at 4:54 p.m.







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